

Fundamentals Level – Skills Module

# Taxation (Botswana)

Thursday 8 June 2017



**Time allowed:** 3 hours 15 minutes

This question paper is divided into two sections:

Section A – ALL 15 questions are compulsory and MUST be attempted

Section B – ALL SIX questions are compulsory and MUST be attempted

Tax rates and allowances are printed on pages 2–5.

**Do NOT open this question paper until instructed by the supervisor.**

**Do NOT record any of your answers on the question paper.**

**This question paper must not be removed from the examination hall.**

Think Ahead

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# Paper F6 (BWA)

**SUPPLEMENTARY INSTRUCTIONS:**

1. Calculations and workings need only be made to the nearest P.
2. All apportionments should be made to the nearest month.
3. All workings should be shown in Section B.

**TAX RATES AND ALLOWANCES**

The following rates of tax and allowances are to be used when answering the questions.

**Rates of tax  
2016/2017 tax year**

<b>Resident companies</b>	<b>On taxable income</b>
Standard rate	22%
Manufacturing company rate	15%

**Resident individuals**

PO – P36,000		PO +	0%
P36,001 – P72,000		PO +	5%
P72,001 – P108,000	P1,800	+	12.5%
P108,001 – P144,000	P6,300	+	18.75%
P144,001 +	P13,050	+	25%

**Non-resident individuals, trusts and estates**

PO – P72,000		PO +	5%
P72,001 – P108,000		P3,600 +	12.5%
P108,001 – P144,000	P8,100	+	18.75%
P144,001 +	P14,850	+	25%

**Capital gains – individuals**

PO – P18,000		PO +	0%
P18,001 – P72,000		PO +	5%
P72,001 – P108,000	P2,700	+	12.5%
P108,001 – P144,000	P7,200	+	18.75%
P144,001 +	P13,950	+	25%

**Capital gains – companies**

Net aggregate gains are taxable at the company rates of tax.

<b>Value added tax (VAT) rate</b>	12%
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**Basis of valuation of benefits**

**Individual’s vehicle benefit**

Vehicle cost	Employee’s benefit	Fuel cost adjustment
P1 – P50,000	P2,500	P1,000
P50,001 – P100,000	P5,000	P2,000
P100,001 – P150,000	P7,500	P3,000
P150,001 – P200,000	P10,000	P4,000

Benefit on the excess of P200,000 will be 15% thereof with a maximum fuel benefit of P5,000.

Where the cost of fuel is paid for by the employee the fuel cost adjustment is deducted from the benefit, but where the cost is borne by the employer the full benefit is taxable.

### Medical contributions

The employer's contributions to a medical benefit fund on behalf of his employee up to an amount equal to 100% of the required contributions shall not become taxable in the hands of the employee.

### Individual's housing benefit

If rated:

10% of the property's rateable value prorated by occupation and reduced by any charge borne by the employee.

If not rated:

The lower of (a) or (b) prorated by occupation and reduced by any charge borne by the employee:

- (a) Gross floor area x P250 per sq metre x 8%
- (b) 25% of taxable employment income before housing benefit

### Individual's furniture benefit

10% of furniture cost in excess of P15,000 by usage.

### Capital allowances

The annual allowance on plant and machinery is between 10% and 25% of the cost incurred. The following are the rates fixed by the Commissioner General of Taxes as fair and reasonable having regard to the expected lives of the assets listed.

#### Capital allowances

Furniture and fittings	10%
Office equipment and machinery	15%
Plant and machinery including farming	15%
Motor vehicles, boats and aircraft	25%
Heavy plant and machinery	25%
Computer hardware	25%

#### Industrial and commercial buildings

Industrial building – initial allowance	25%
Industrial building – annual allowance	2.5%
Commercial building – annual allowance	2.5%

### Withholding tax rates

	Residents	Non-residents
Interest	10%	15%
Dividends	7.50%	7.50%
Entertainment fee	–	10%
Management and consultancy fees	–	15%
Commercial royalty	–	15%
Rent	5%	5%
Commission or brokerage	10%	10%
Construction contracts	3%	3%

## Capital gains tax

### Indexation allowance

Paragraph 8 of the Tenth Schedule to the Income Tax Act 1995.

Table of factors from the National Cost of Living Indices.

	<b>1982</b>	<b>1983</b>	<b>1984</b>	<b>1985</b>	<b>1986</b>	<b>1987</b>	<b>1988</b>
January		104.1	113.5	119.9	133.9	147.4	157.8
February		104.8	113.5	120.7	135.5	148.5	158.7
March		105.5	115.2	122.0	135.5	148.9	160.8
April		106.6	116.0	124.1	136.8	151.9	163.4
May		108.3	116.9	126.6	138.0	153.6	164.0
June		108.4	118.3	128.6	140.9	154.1	165.5
July	100.0	109.0	119.1	130.1	141.2	154.9	168.0
August	101.2	110.2	120.1	129.8	141.8	156.6	169.3
September	101.2	110.2	119.8	131.1	142.7	156.7	171.0
October	102.1	110.7	120.7	131.5	143.4	157.1	172.6
November	103.3	111.7	119.7	131.8	144.7	157.5	173.9
December	103.8	112.3	119.5	132.0	146.3	158.1	174.4
	<b>1989</b>	<b>1990</b>	<b>1991</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>
January	176.9	196.6	220.5	248.5	291.0	324.2	357.9
February	178.0	199.0	221.4	250.4	293.1	326.8	361.0
March	180.1	200.5	223.5	256.6	295.8	328.3	364.1
April	182.7	204.1	225.8	262.1	301.1	332.7	368.6
May	184.1	205.1	227.3	265.5	303.3	337.3	370.5
June	186.2	206.0	229.0	269.4	306.0	340.3	374.9
July	187.3	207.2	232.0	273.3	308.7	343.2	377.8
August	188.7	209.2	234.2	275.0	311.4	345.3	381.6
September	190.2	210.7	237.2	277.6	315.0	347.0	384.3
October	191.1	212.6	239.5	280.1	317.6	348.4	386.0
November	191.5	216.0	242.4	283.0	320.1	351.4	387.9
December	194.2	217.6	245.1	285.4	321.5	353.1	391.3
	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
January	395.5	431.6	464.8	495.1	530.8	581.4	613.1
February	398.1	435.5	466.0	499.7	536.8	582.1	613.9
March	402.2	439.7	469.9	504.3	538.8	587.2	622.1
April	405.6	443.6	476.0	507.5	545.5	589.9	629.6
May	408.8	448.7	477.9	509.2	548.9	596.9	631.3
June	413.9	451.2	478.9	513.3	552.0	598.6	634.0
July	417.0	454.2	481.0	514.3	568.6	601.3	654.0
August	419.1	455.1	484.0	517.7	569.8	603.0	662.4
September	421.6	457.6	484.4	521.1	571.4	605.4	666.7
October	423.8	459.7	486.9	523.5	576.0	608.5	670.7
November	426.0	460.9	489.5	524.0	577.5	610.2	677.6
December	428.7	461.9	491.2	525.2	578.7	611.0	679.3

	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
January	683·2	721·3	779·2	877·4	942·9	1022·2	1152·7
February	689·0	728·6	781·7	884·0	948·5	1034·4	1151·1
March	692·2	735·8	783·8	891·5	949·5	1043·1	1165·0
April	701·4	743·6	789·4	901·4	957·7	1064·7	1172·8
May	705·8	754·0	801·4	909·6	968·1	1085·0	1176·0
June	715·0	721·3	813·2	915·0	974·5	1115·1	1193·4
July	714·5	758·9	821·2	918·6	988·5	1136·7	1204·8
August	698·0	761·3	834·8	924·2	991·2	1140·6	1209·7
September	707·0	765·7	842·3	930·8	994·1	1133·8	1213·0
October	715·9	770·7	857·1	936·4	1004·3	1135·5	1213·3
November	717·9	772·4	859·7	935·4	1007·2	1159·0	1217·2
December	718·9	774·9	863·1	936·4	1012·8	1151·2	1218·4
	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
January	1223·2	1320·0	1436·1	1544·3	1611·2	1670·7	1715·4
February	1225·4	1330·2	1440·0	1546·9	1618·7	1664·2	1714·5
March	1234·6	1338·9	1446·5	1555·4	1624·3	1669·8	1721·0
April	1256·2	1359·0	1460·4	1565·6	1637·1	1687·5	1735·9
May	1268·6	1373·6	1480·0	1570·2	1641·0	1690·3	1737·8
June	1285·3	1386·4	1487·3	1573·8	1645·6	1696·8	1741·5
July	1289·7	1380·6	1492·1	1576·7	1647·5	1698·7	1744·3
August	1290·6	1403·4	1496·7	1580·4	1652·1	1701·5	1747·1
September	1297·9	1409·0	1508·9	1584·3	1654·8	1704·2	1751·7
October	1300·6	1415·0	1515·4	1587·9	1656·8	1708·9	
November	1304·2	1424·0	1530·2	1593·5	1661·4	1709·8	
December	1309·1	1428·8	1534·8	1598·1	1657·7	1708·9	

**Section B – ALL SIX questions are compulsory and MUST be attempted**

Please write your answers to all parts of these questions on the lined pages within the Candidate Answer Booklet.

1 The following is the income statement of Tau Industries (Pty) Ltd (TIL) for the year ended 31 December 2016:

	<b>P</b>
<b>Income</b>	
Sales	5,720,419
Cost of sales	(3,886,052)
	1,834,367
Profit on sale of a business division (note 1)	111,750
Profit on sale of investments (note 2)	25,000
	1,971,117
<b>Expenses</b>	
Depreciation	639,120
Loss on sale of immoveable property (note 3)	282,000
Other deductible expenses	1,280,533
	2,201,653
Net loss for the year	(230,536)

**Notes:**

You are provided with the following further information:

1. The sale price of the repair division is made up as follows:

	<b>P</b>
Fixed assets at net book value	275,387
Stock at cost	862,863
Goodwill	111,750
	1,250,000
Sale price	1,250,000

2. The profit on the sale of shares in Elite Electrical Installations (Pty) Ltd is made up as follows:

	<b>P</b>
Cost of shares	2,500,000
Fair value adjustment	(275,000)
	2,225,000
Sale price	2,250,000
Profit on sale	25,000

3. The loss on the sale of the immoveable property (Plot 14825 Gaborone) is made up as follows:

	<b>P</b>
Original cost – November 2009	1,325,000
Extensions – February 2011	557,000
Fair value adjustment	1,200,000
	3,082,000
Sale price – January 2016	2,800,000
Loss on sale	(282,000)

4. TIL had an option to acquire certain immovable property, being Plot 186 Jwaneng, at a cost of P2,000,000. This option expired on 31 May 2016 but was not exercised.

**Required:**

**In respect of Tau Industries (Pty) Ltd for the tax year ended 31 December 2016:**

- (a) Calculate the net disposal gain or loss; (5 marks)
- (b) Calculate the disposal gain or loss if the option to purchase Plot 186 Jwaneng had been exercised on 30 May 2016. (3 marks)
- (c) State any two conditions for claiming rollover relief. (2 marks)

**(10 marks)**

- 2
1. You are approached by the directors of Health Alternatives (Pty) Ltd to assist the company in respect of its assessment for the year ended 30 September 2016. Taxable income of P1,785,829 was returned but an assessment of it has been received amounting to P2,920,714 before interest and penalties.
  2. The assessment was dated 17 May 2017.
  3. The assessment included undeclared income amounting to P736,288. The directors advise that this amount was an advance receipt but that the goods had not been delivered in that tax year. The contract stipulated that the advance payment was refundable if the goods are not delivered.
  4. The assessment also disallowed expenditure amounting to P308,152 on the grounds that it is of a capital nature. The directors advise that this amount was in respect of a purchase of 300 kits to permit employees to demonstrate the company's products to potential customers. Each kit is expected to last for about six months and a further batch will have to be purchased in October 2016.
  5. The tax return was submitted on 5 April 2017 and a late payment penalty has been charged.
  6. Interest was charged on underpayment of self-assessed tax (SAT).

**Required:**

**Advise your client, Health Alternatives (Pty) Ltd, on the following matters in respect of the assessment received for the 2016/2017 tax year:**

- (a) State the date by which an objection must be submitted. (1 mark)
- (b) Suggest an argument to counter the claim that income has been undeclared. (3 marks)
- (c) Provide reasons why the expenditure is not of a capital nature. (2 marks)
- (d) Calculate the late submission penalty which should have been charged. (2 marks)
- (e) State the basis on which interest is charged for underpayment of self-assessment tax (SAT). (2 marks)

**(10 marks)**

3 Quality Products (Pty) Ltd (QPL) submitted the following income statement together with its income tax return for the year ended 30 April 2017:

	P
<b>Income</b>	
Sales	9,216,771
Other income	28,628
	9,245,399
<b>Expenses</b>	
Administrative costs paid to residents	692,891
Administration fees paid to a non-resident	360,000
Commission paid to a resident	153,036
Consulting fees paid to a resident	116,228
Depreciation	121,053
Insurance paid to a non-resident	46,992
Interest paid to a non-resident	179,260
Payroll costs	1,785,219
Purchases paid to a non-resident	2,836,017
Rent paid to a resident	69,240
Software development costs paid to a non-resident	559,273
Technical fees paid to a non-resident	286,300
Transport costs paid to a non-resident	301,162
	7,506,671
Net profit for the year	1,738,728

You are provided with the following additional information:

1. The claim for capital allowances amounts to P207,251.
2. QPL paid the following amounts of withholding tax during the year:

	P
Administration fees paid to a non-resident	37,965
Commission paid to a resident	10,272
Consulting fees paid to a resident	0
Insurance paid to a non-resident	0
Interest paid to a non-resident	20,250
Rent paid to a resident	3,462
Software development costs paid to a non-resident	0
Technical fees paid to a non-resident	27,345
Transport costs paid to a non-resident	0
	99,294

**Required:**

**In respect of Quality Products (Pty) Ltd for the year ended 30 April 2017:**

**(a) Calculate the taxable income;**

Note: Your answer should demonstrate the tax effect of all the expenses listed in 2 above. (8 marks)

**(b) State when withholding tax should be paid to the Revenue authorities;** (1 mark)

**(c) State the penalty for not paying withholding tax by the due date.** (1 mark)

**(10 marks)**



4 Uniquip Botswana (Pty) Ltd submitted the following value added tax (VAT) return for the tax period ended 31 January 2017:

	P
Outputs	3,496,052
Inputs	(2,816,904)
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	679,148
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A VAT audit revealed the following issues:

1. Inputs include a deduction for discounts allowed amounting to P63,814. There were no tax invoices to support this adjustment.
2. Goods amounting to P116,827 were delivered to a customer before the end of the tax period but a tax invoice indicating 30 days' credit was only raised in the following tax period.
3. Inputs include the following expenses, inclusive of VAT where applicable, incurred by the company's sales people:

	P
Petrol costs	1,892
Hotel accommodation and meal costs	2,586
Entertainment costs	894
Car repairs	3,198
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	8,570
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4. An insurance claim in respect of fire damage to the company's building was received amounting to P78,672 inclusive of VAT. This amount had not been included in the VAT return.
5. Scrap materials amounting to P32,813 were sold but no VAT was raised on the sale.

**Required:**

**In respect of Uniquip Botswana (Pty) Ltd for the value added tax (VAT) period ended 31 January 2017:**

- (a) **Discuss the VAT implications of each of the issues 1 to 5 above;** (6 marks)
- (b) **Restate the net outputs taking into account all of the issues above. Start your answer with the net outputs as originally reported.**

Note: You should indicate by the use of zero (0) any items referred to in the question where there is no VAT impact. (4 marks)

**(10 marks)**

5 The results of Group Seven (Pty) Ltd (GSL) for the year ended 31 March 2017 is as follows:

	<b>P</b>
<b>Income</b>	
Gross profit	6,829,254
Dividends received	82,993
Interest received	186,296
Fair value adjustment	150,250
	<u>7,248,793</u>
<b>Expenses</b>	
Depreciation	563,824
Interest paid to residents	320,804
Impairment of investments	756,372
Loss on sale of fixed assets	78,037
Provisions	362,312
Rental	1,140,469
Other deductible expenses	3,596,386
	<u>6,818,204</u>
Net profit for the year	<u>430,589</u>

You are provided with the following further information:

1. The loss on sale of fixed assets is made up as follows:

	<b>Plant</b>	<b>Vehicles</b>	<b>Total</b>
	<b>P</b>	<b>P</b>	<b>P</b>
Cost	638,900	126,525	765,425
Fair value adjustment	200,000	0	200,000
Depreciation	(428,626)	(108,762)	(537,388)
	<u>410,274</u>	<u>17,763</u>	<u>428,037</u>
Sales proceeds	350,000	0	350,000
Loss on sale	<u>(60,274)</u>	<u>(17,763)</u>	<u>(78,037)</u>

2. New replacement plant was purchased costing P820,750.

3. The net tax value of assets at 31 March 2016 was as follows:

	<b>Plant</b>	<b>Vehicles</b>	<b>Total</b>
	<b>P</b>	<b>P</b>	<b>P</b>
Cost	2,863,924	872,980	3,736,904
Capital allowances	(1,377,829)	(572,114)	(1,949,943)
	<u>1,486,095</u>	<u>300,866</u>	<u>1,786,961</u>

The capital allowances granted on the sold plant amounted to P389,402 and on the sold vehicles amounted to P100,728.

4. The rental expense is made up as follows:

	<b>P</b>
Payments in terms of a lease agreement	962,240
Security deposit	120,000
Rental smoothing (IAS 17 adjustment)	58,229
	<u>1,140,469</u>

5. GSL made the following withholding tax payments during the year:

	<b>P</b>
Interest paid to residents	32,080
Interest paid to non-residents	68,204
Rental	48,112
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	148,396
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6. The movement in provisions is as follows:

	<b>P</b>
Specific provision for obsolete stock	268,116
Specific provision for doubtful debts	(58,654)
Provision for future advertising campaign	152,850
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	362,312
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**Required:**

**In respect of Group Seven (Pty) Ltd for the year ended 31 March 2017:**

- (a) Calculate the balancing charge or allowance on the disposal of the fixed assets; (2 marks)
- (b) Calculate the claim for capital allowances, utilising all possible reliefs and show the net tax value of the assets carried forward; (4 marks)
- (c) Calculate the taxable income. (9 marks)

**(15 marks)**

6 Albert Kamodi is employed by Pan African Trading (Pty) Ltd and his employment package for the 2016/2017 tax year is as follows:

1. An annual salary of P675,000;
2. Exclusive use of a company vehicle costing P320,000;
3. School fees amounting to P70,000 per annum;
4. Non-contributory medical aid amounting to P38,000 per annum;
5. Housing allowance amounting to P48,000 per annum.

During the year Albert received a payment in respect of severance pay amounting to P375,000.

Albert paid P28,500 towards an approved retirement annuity fund.

Albert received the following additional income on which tax had been withheld:

	Amount P	Tax P
Interest received from a building society	38,600	3,860
Interest received from his father	22,400	2,240
Dividends received	82,320	6,174

In addition to the above, Albert was a 40% partner in a business styled Pattinson Agencies. His uncle Samuel Kamodi is a 60% partner. The results of the business for the year ended 30 April 2017 are as follows:

	P	P
Gross profit		872,915
Administrative expenses	762,817	
Drawings by Albert Kamodi	42,500	
School fees for Albert's son	30,000	
VAT penalties	17,294	
Contaminated stock written off	25,372	
Purchase of van	125,000	(1,002,983)
Net loss		<u>(130,068)</u>

The tax value of the business assets at 30 April 2016 was :

	P
Cost	672,964
Accumulated allowances	<u>(275,903)</u>
Tax value at 30 April 2016	<u>397,061</u>

**Note:** Assume a capital allowance rate of 25%.

**Required:**

**In respect of Albert Kamodi for the 2016/2017 tax year:**

- (a) Calculate his chargeable income from employment; (4 marks)
- (b) Calculate his chargeable income or loss from business; (5 marks)
- (c) Calculate his taxable income; (5 marks)
- (d) Calculate his tax loss, if any, to be carried forward. (1 mark)

**Note:** You should indicate by the use of zero (0) any items referred to in the question where there is no tax impact.

**(15 marks)**

**End of Question Paper**