

Fundamentals Level – Skills Module

Taxation (Botswana)

Thursday 7 June 2018



F6 BWA BICA

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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Chartered Accountants

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
2017/2018 tax year**

Resident companies	On taxable income
Standard rate	22%
Manufacturing company rate	15%

Resident individuals

P0 – P36,000	P0 +	0%
P36,001 – P72,000	P0 +	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

P0 – P72,000	P0 +	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

P0 – P18,000	P0 +	0%
P18,001 – P72,000	P0 +	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.

Valued added tax (VAT) rate	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 (Note)	10%	15%
Dividends	7.5%	7.5%
Entertainment fees	–	10%
Management and consultancy fees	–	15%
Commercial royalty	–	15%
Rent	5%	5%
Commission or brokerage	10%	10%
Construction contracts	3%	3%

Note: Withholding tax on interest paid to residents is calculated at 10% of interest paid to a resident in excess of P1,950 in a quarter of a year.

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.

	1982	1983	1984	1985	1986	1987	1988
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
	1989	1990	1991	1992	1993	1994	1995
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
	1996	1997	1998	1999	2000	2001	2002
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

	2003	2004	2005	2006	2007	2008	2009
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

	2010	2011	2012	2013	2014	2015	2016
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	1755·2
November	1304·2	1424·0	1530·2	1593·5	1661·4	1709·8	1758·7
December	1309·1	1428·8	1534·8	1598·1	1657·7	1708·9	1760·5

	2017
January	1769·2
February	1772·7
March	1781·5
April	1795·5
May	1799·0
June	1802·5
July	1804·3
August	
September	
October	
November	
December	

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

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

1 Newage Timber Industries (Pty) Ltd (NTI) has contracted to sell all assets and liabilities of its Mahalapye branch on 21 March 2017. The details of the sale are as follows:

1. The total sale price is P4,350,000.
2. The total sale price of P4,350,000 includes an amount of P2,300,000 in respect of Plot 882 Mahalapye. The undeveloped property was originally purchased in July 2008 for P500,000. Buildings were erected in June 2012 for P800,000 and extensions costing P225,000 were made in August 2013. In May 2014, NTI paid P475,000 for an extension of its existing boundary of Plot 882 Mahalapye.
3. A residential property was purchased in April 2010 for P280,000 and is sold for P400,000.
4. The sale price of net assets is P1,000,000 which is made up as follows:

	P
Non-current assets	165,000
Stock	355,000
Accounts receivable	200,000
Bank and cash	35,000
Liabilities	(430,000)
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	325,000
Goodwill	675,000
	<hr/>
	1,000,000

5. The trading licence is sold for P650,000. The original cost in May 2012 was P250,000.

Required:

In respect of Newage Timber Industries (Pty) Ltd for the year ended 31 December 2017:

- (a) Calculate the net disposal gain or loss resulting from the disposal of the assets and liabilities of the Mahalapye branch. (9 marks)
- (b) State the rate at which any disposal gain will be taxed. (1 mark)

(10 marks)

- 2 The summarised total value added tax (VAT) returns of Evergreen Retailers (Pty) Ltd (ERL) for the year ended 30 April 2018 are as follows:

	Notes	P
Outputs		
Sales – local		5,278,816
Sales – exported		1,093,442
Purchase returns	(1)	78,291
Discount received		57,993
Profit on sale of saloon car	(2)	13,052
		<u>6,521,594</u>
Inputs		
Purchases – local		1,288,398
Purchases – imported		2,682,264
Extensions to commercial building	(3)	377,608
Rent paid	(4)	862,510
Output adjustments	(5)	273,903
		<u>5,484,683</u>
Excess of outputs		<u>1,036,911</u>

Notes:

An investigation of the individual VAT returns for the year ended 30 April 2018 revealed the following:

1. The purchase returns included in outputs are in fact sales returns.
2. The profit on the sale of the saloon car was calculated as follows:

	P
Original cost	165,000
Depreciation	(78,052)
	<u>86,948</u>
Sale proceeds	100,000
	<u>13,052</u>

3. Extensions to commercial buildings includes the construction of a gym for the use of staff costing P85,962.
4. Rent paid includes rent of P183,500 paid in respect of residential accommodation.
5. Output adjustments include credit notes amounting to P45,826 in respect of export sales.

Required:

In respect of Evergreen Retailers (Pty) Ltd for the year ended 30 April 2018:

- (a) For each of the items (1) to (5) state, giving brief reasons, whether any adjustment is required to the summarised total VAT returns. (6 marks)
- (b) Recompute the excess of outputs for the year.

Note: You should start your computation with the excess stated in the question of P1,036,911. (4 marks)

(10 marks)

- 3 Ngami Canvas Products (Pty) Ltd made the following payments which were liable to withholding tax during the year ended 31 March 2018.

Payments made to non-residents:

	Amount paid	Withholding tax paid
	P	P
Interest	162,844	24,427
Technical fees	276,024	41,404
Dividends	500,000	37,500
Commission	138,078	13,808
Royalties	196,206	29,431
Residential rent	86,400	4,320

Payments made to residents:

	P	P
Fees relating to a construction contract	227,931	6,838
Interest paid to resident shareholder	236,260	23,626

Required:

In respect of all the above payments made and tax withheld by Ngami Canvas Products (Pty) Ltd for the year ended 31 March 2018:

- (a) For each payment, indicate whether or not the withholding tax deducted from it by Ngami Canvas Products (Pty) Ltd represents a final charge to tax on the recipient by the Botswana Unified Revenue Service or whether the amount of tax withheld can be claimed as a credit against the recipient's Botswana tax liability. (4 marks)
- (b) State the correct amount of tax which should have been withheld from the interest paid to a resident shareholder. (2 marks)
- (c) Explain the need for withholding tax on certain payments to non-residents. (4 marks)

(10 marks)

- 4 Most countries around the world impose taxation in one form or another on their citizens and so it is important that everyone understands their tax obligations.

Required:

- (a) State the purpose(s) of taxation. (2 marks)
- (b) Explain the difference between direct tax and indirect tax and provide TWO examples of each. (6 marks)
- (c) Provide TWO examples of the source of tax law in Botswana. (1 mark)
- (d) Explain the role of Departmental Guidance Notes. (1 mark)

(10 marks)

5 The results of Quality Agencies (Pty) Ltd (QAL) for the year ended 31 December 2017 were as follows:

	Note	P
Income		
Sales		7,369,228
Cost of sales	1	<u>(3,892,610)</u>
		3,476,618
Commission received	2	367,228
Rent received	2	157,882
Interest received	2	93,827
Dividends received	2	<u>34,906</u>
		<u>4,130,461</u>
Expenses		
Administrative deductible expenses		739,925
Depreciation		488,297
Fair value adjustment		350,000
Impairment of non-current assets		563,782
Loss on sale of non-current assets	3	59,829
Loss on sale of shares in Quality Motors (Pty) Ltd	4	147,824
Salaries and wages		1,782,019
VAT interest		<u>37,528</u>
		<u>4,169,204</u>
Net loss		<u>(38,743)</u>

Notes:

1. Included in cost of sales is the movement on disallowable provisions.

	P
Provisions balance at 31 December 2016	175,982
Provisions balance at 31 December 2017	255,934

2. The following withholding tax was deducted from receipts:

	P
Commission received	36,723
Rent received	4,691
Interest received	9,383
Dividends received	2,618

3. The loss on disposal of the non-current assets is calculated as:

	P
Original cost	428,500
Less: depreciation	<u>(248,671)</u>
	179,829
Sale proceeds	<u>120,000</u>
Loss on sale	<u>(59,829)</u>

Capital allowances granted to date on the non-current assets sold amounted to P373,068. During the year, QAL purchased replacement non-current assets costing P458,250.

4. The loss on the disposal of shares in Quality Motors (Pty) Ltd was calculated as follows:

	P
Original cost	267,824
Fair value adjustment	200,000
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	467,824
Sales proceeds	320,000
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Loss on sale	(147,824)
	<hr/>

5. Capital allowances for the year are calculated at P381,004 on all non-current assets except the replacement non-current assets referred to in note 3 above. Assume a capital allowance rate of 15% on all assets.

Additional information:

As at 31 December 2017 QAL had paid self-assessment tax (SAT) amounting to P150,000.

Required:

In respect of Quality Agencies (Pty) Ltd for the year ended 31 December 2017:

(a) Calculate the balancing charge or allowance on the disposal of the non-current assets and the total capital allowance claim, utilising all possible reliefs. (4 marks)

(b) Calculate the taxable income.

Note: You should start your computation with the net loss figure of P38,743. (7 marks)

(c) Calculate the final SAT payment which should be made.

Note: You should indicate payments made during the year which do not affect the final SAT payment by the use of a zero (0). (3 marks)

(d) State the date by which the final SAT payment should be made. (1 mark)

(15 marks)

- 6 (a) Koponang Tladi is an architect in practice styled KT Architects. In addition, Koponang owns commercial properties which he lets out to tenants.

The results of KT Architects for the year ended 30 April 2018 are as follows:

	P
Income	
Fee income	3,628,693
Net building society interest received	29,601
Net dividends received	49,654
	<u>3,707,948</u>
Expenses	
Administrative costs	866,201
Depreciation	97,263
Drawings made by Koponang Tladi	480,000
Family holiday cost	45,227
Koponang Tladi's car expenses	79,265
Income tax payable by Koponang Tladi	58,291
Salaries and wages for employees	1,428,937
Children's school fees	37,628
	<u>3,092,812</u>
Net profit	<u>615,136</u>

You are provided with the following further information for Koponang Tladi:

1. The tax value of the practice's assets at 30 April 2017 was as follows:

	P
Total cost	1,623,824
Total capital allowances	(1,074,294)
Tax value at 30 April 2017	<u>549,530</u>

Assume all capital allowances on the practice's assets are claimed at a flat rate of 15%.

2. In May 2018, Koponang sold 20% of his share in the practice to one of his employees for a sum of P650,000. There was no base cost.
3. Koponang Tladi earned net rent for the year from his commercial properties amounting to P867,046 and had the following costs:

	P
Insurance	27,289
Repairs and maintenance	88,361
Security	48,937

4. The tax value of the commercial properties at 30 April 2017 was:

	P
Total cost	6,513,360
Total capital allowances	(1,027,932)
Tax value at 30 April 2017	<u>5,485,428</u>

5. The following tax was withheld from receipts:

	P
Rents	45,634
Interest	3,289
Dividends	4,026

Required:

In respect of Koponang Tladi for the tax year ended 30 June 2018:

(i) Calculate his chargeable income from the KT Architects business.

Note: You should start your calculations in this part with the net profit figure of P615,136. (5 marks)

(ii) Calculate his net disposal gain on the disposal of 20% of the KT Architects business, claiming all available reliefs. (2 marks)

(iii) Calculate his chargeable income from rent. (4 marks)

(b) KT Architects provides the following annual employment benefits to its most senior employee for the tax year ended 30 June 2018:

		P
Housing	Square metres	220
Furniture		94,000
House utilities		16,725
Company car	Cost	180,000
Medical aid		27,670
Return airfare to place of hire		8,650
School fees		23,500
Pension contribution		39,230

Required:

Quantify the taxable income arising on the employment benefits given to a senior employee and on which PAYE should be calculated. (4 marks)

(15 marks)

End of Question Paper