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# Answers

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Section A

1 B

	P
Estimated taxable income	2,350,000
22% tax thereon	517,000
80% thereon	413,600
Less: Self-assessment tax (SAT) paid	(265,000)
Less: withholding tax on interest	(16,000)
Less: withholding tax on construction receipts	(63,000)
	<u>69,600</u>

2 D

	P
Business income	875,400
Non-bank interest	42,165
Dividends	0
Rental – loss	0
	<u>917,565</u>

**Tutorial note:** A rental loss is ring-fenced and cannot be deducted from other income.

3 D

	P
Interest received	0
Commission received	142,897
Residential rent received	0
Loan facility fee received	76,296
	<u>219,193</u>

4 B

5 C

		P
Non-resident individual	15% x P350,000	52,500
Resident individual	10% x P180,000	18,000
Resident bank		0
		<u>70,500</u>

**Tutorial note:** No tax is deductible on interest payments made to a resident bank.

6 B

7 D

	P
Provision for interest payable	37,828
Specific provision for bad debts	107,624
	<u>145,452</u>

**8 A**

	P
Company paid pension contribution	0
School fees paid by company	57,500
Leave airfare to his country of hire annually	0
Company paid medical aid contribution	0
	<u>57,500</u>

**9 A**

15 December 2017

**Tutorial note:** *Withholding tax is due by the 15th of the month following which the dividend is actually paid.*

**10 C**

	P
Goods returned to local suppliers	148,272
Price adjustments from local suppliers	46,007
Discounts given by non-resident suppliers	0
Correction of quantities delivered by non-resident suppliers	0
	<u>194,279</u>

**11 B**

	P
5,000,000 x 2.5%	125,000
1,947,560 x 2.5%	48,689
1,947,560 x 25%	486,890
	<u>660,579</u>

**12 A**

		P
Shares in Company A	November 2017	293,882
Debentures in Company B	February 2018	(52,531)
Share rights in Company C	December 2015	0
Preference shares in Company D	August 2013	0
		<u>241,351</u>
Less: 25% moveable property allowance		(60,338)
		<u>181,013</u>

**Tutorial note:** *Securities sold before they have been held for at least a year are liable to CGT.*

**13 D**

	P
Reimbursement of vehicle costs incurred for employment purposes	0
Entertainment allowance	24,000
Self-education costs	0
Per diem for out of town travelling	0
	<u>24,000</u>

**Tutorial note:** *A reimbursement of costs incurred on behalf of an employer is not gross income, education costs are specifically exempted and the payment of reasonable per diems for out of town work is not taxable by concession.*

14 C

Late submission penalty 10% x 137,840  
 Late payment penalty 10% x 137,840

P
13,784
13,784
27,568

15 A

**Tutorial note:** *In respect plant and machinery only an annual allowance can be claimed. An initial allowance can be claimed on industrial buildings.*

2 marks each

30

## Section B

Marks

## 1 Masunga Property Company

## (a) Net disposal gain Plot 416 Francistown

	Original cost P	Indexation P	Tax cost P	
Land May 2006 (120,000 x 1804·3/909·6) – 120,000	120,000	118,034	238,034	1
Building November 2006 (935,000 x 1804·3/935·4) – 935,000	935,000	868,528	1,803,528	1
Extension February 2011 (1,700,000 x 1804·3/1330·2) – 1,700,000	1,700,000	605,901	2,305,901	1
	<u>2,755,000</u>	<u>1,592,463</u>	<u>4,347,463</u>	
Sales price July 2017			8,500,000	0·5
			<u>4,152,537</u>	
Less: rollover relief (3,500,000 – 2,755,000)			(745,000)	1·5
Net disposal gain			<u>3,407,537</u>	<u>5</u>

## (b) Taxable income

	P	P	
Plot 416 Francistown		3,407,537	0·5
Sale of shares in Power Lines (Pty) Ltd	1,450,000		0·5
Cost of shares (P300,000 – P50,000)	(250,000)		1·5
	<u>1,200,000</u>		
Less: 25% moveable property allowance	(300,000)	900,000	1·5
Less: capital loss brought forward		(236,058)	1
Taxable income		<u>4,071,479</u>	<u>5</u>
			<u>10</u>

## 2 Transunion Products

## (a) Administrative expenses

	P	
As reported	862,294	
Less: hotel costs of travelling salesmen	(18,929)	1
Less: entertainment allowances	(10,752)	0·5
Less: repairs to residential houses	(27,802)	0·5
	<u>804,811</u>	<u>2</u>

## (b) VAT payable

	Standard rated P	Zero rated P	Exempt P	Non-taxable P	
<b>Outputs</b>					
Sales – local	2,638,719				
Sales – foreign		782,163			0.5
Proceeds on sale of vehicles	200,000			100,000	0.5
Interest received			26,791		0.5
Dividends received				15,992	0.5
Discount received	18,210				0.5
	<u>2,856,929</u>	<u>782,163</u>	<u>26,791</u>	<u>115,992</u>	
<b>Inputs</b>					
Purchases – local	263,072				
Purchases – foreign	1,025,622				0.5
Sales returns – foreign		47,224			0.5
Purchase of second hand saloon car				160,000	1
Purchase of second hand machinery	205,000				0.5
Salaries and wages				762,981	0.5
Administrative costs	804,811		27,802	29,681	0.5
Proceeds on sale of shares				250,000	0.5
Bad debt				28,937	1
	<u>2,298,505</u>	<u>47,224</u>	<u>27,802</u>	<u>1,231,599</u>	
Excess of outputs over inputs	<u>558,424</u>				
VAT payable @ 12%	<u>67,011</u>				0.5
					<u>8</u>
					<u>10</u>

**Tutorial note:** An input credit in respect of a bad debt can only be claimed on the later of (a) the date the debt was written off and (b) 12 months after the date on which the tax was paid.

## 3 Thobega Enterprises

## (a) Expenses paid to non-resident individuals

	Expense paid P	Withholding tax P	
Purchases	1,378,295	0	0.5
Advertising	26,881	0	0.5
Rent of premises	150,680	7,534	0.5
Marketing fees	321,160	48,174	0.5
Transport	580,496	0	0.5
Insurance	177,528	0	0.5
Technical fees	267,180	40,077	0.5
<b>Expenses paid to resident individuals</b>			
Interest	36,830	3,683	0.5
Rent of equipment	127,629	0	0.5
Construction contractor	648,400	19,452	0.5
Royalties	62,814	0	0.5
Commission	182,910	18,291	0.5
		<u>137,211</u>	
			<u>6</u>

**(b) Final charge to tax**

	P	P	
Marketing fees	321,160	48,174	1
Technical fees	267,180	40,077	1
			<u>2</u>

**(c) Recipients can claim a tax credit**

	P	P	
Rent of premises	150,680	7,534	0.5
Interest	36,830	3,683	0.5
Construction contractor	648,400	19,452	0.5
Commission	182,910	18,291	0.5
			<u>2</u>
			<u>10</u>

**4 Ronald Nakedi****(a) Options****Disputed tax for the tax year 2014/2015:**

The only realistic option is to pay the outstanding tax. A formal objection must be submitted within 60 days of issue and that is obviously now too late.

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There is provision in the Income Tax Act for the Botswana Unified Revenue Service (BURS) to accept a late objection but there has to be a good reason for the lateness which does not exist in this case and so is likely to be rejected.

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Therefore it will most probably be best to pay the disputed tax and stop interest accruing.

1

**Disputed tax for the tax year 2015/2016:**

A formal objection must be submitted to BURS within 60 days of the issue of the assessment. Since there is still time a formal objection should be submitted. This gives the taxpayer the opportunity to pursue the dispute through the courts if BURS dismisses the objection.

1

In addition the disputed tax should be paid to stop interest accruing which will have to be paid if the taxpayer loses his case.

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5**(b) Demonstrate that costs are deductible**

Ronald must demonstrate that the costs have been wholly, exclusively and necessarily incurred in the production of business income.

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He will need to provide genuine documentation such as invoices, showing that the expenses are at arms-length and are not paid to related parties.

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2**(c) Interest on late payment of tax**

Interest is charged at 1.5% per month.

The monthly interest charge is P42,847 x 1.5% = P642.70

1**(d) Penalties on late submission of tax returns**

The penalty is P100 per day.

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However, by concession no penalty is charged in respect of late tax return filings in respect of individuals only.

1

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**Tutorial note:** Ronald will not suffer any penalties in connection with the late filing, only interest on late payment of tax.

## 5 Metropolitan Properties

## (a) Capital gain

	P	
Capital gain property A (given)	1,450,675	0.5
Less: rolled over property B	<u>(1,450,675)</u>	0.5
Capital gain after reliefs	<u>0</u>	<u>1</u>

## (b) Capital allowances

	P	
<b>Commercial property</b>		
2.5% x 30,123,924 annual allowance	753,098	1
<b>Industrial property</b>		
25% x 4,500,000 initial allowance	1,125,000	1.5
2.5% x 15,388,889 annual allowance	<u>384,722</u>	1.5
Total capital allowances	<u>2,262,820</u>	<u>4</u>

**Tutorial note:**

*There are no further capital allowances for fixed assets as all the fixed assets were sold during the year.*

## (c) Balancing charge

	P	
Fixed assets		
Cost	426,906	
Capital allowances	<u>(296,834)</u>	
	130,072	
Sales proceeds	<u>187,522</u>	
Balancing charge	57,450	0.5
Immoveable property A	<u>236,530</u>	0.5
Total balancing charge	<u>293,080</u>	<u>1</u>

## (d) Taxable income

	P	P	
Net profit per accounts		2,491,742	
Add: lease smoothing 2017	367,951		1
Add: impairment of intangible assets	1,672,453		0.5
Add: loss on sale of fixed assets	61,128		0.5
Add: interest paid on loan	2,678,841		0.5
Add: interest paid on late tax payments	83,675		0.5
Add: provision for repairs 2018	750,000		1
Add: balancing charge	<u>293,080</u>	5,907,128	0.5
Less: lease smoothing 2018	560,823		1
Less: interest paid on loan (234,662/15%)	1,564,413		1
Less: provision for repairs 2017	500,000		1
Less: revaluation of immoveable properties	2,158,243		0.5
Less: profit on sale of immoveable property A	1,100,000		0.5
Less: capital allowances	<u>2,262,820</u>	<u>(8,146,299)</u>	0.5
Taxable income		<u>252,571</u>	<u>9</u>

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## 6 Benson Tangane

## (a) Chargeable income from Strategic Concepts

	P	P	
Net loss		(1,018,548)	
Add: cost of building material in cost of sales	263,905		1
Add: salary Benson Tangane	720,000		1
Add: mortgage bond payments Benson's house	252,348		0.5
Add: Benson's holiday costs	28,715		0.5
Add: architects' fees Benson's house	76,218		1
Add: donation to political party	15,000	1,356,186	0.5
	<hr/>		
Less: medical aid refunds	27,518		0.5
Less: proceeds sale of shares	142,765		0.5
Less: proceeds sale of personal assets	28,624	(198,907)	0.5
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Chargeable income from business		138,731	
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			<b>6</b>

## (b) Chargeable income from agency activities

	P	
Commissions received	852,173	1
Commissions reversed	(48,167)	1
Travel costs	(178,261)	1
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Chargeable income from agency activities	625,745	
		<hr/>
		<b>3</b>

**Tutorial note:** Benson is entitled to claim all costs incurred by him in generating the agency commission income.

## (c) Taxable income

	P	
Chargeable income from Strategic Concepts	138,731	0.5
Chargeable income from agency activities	625,745	0.5
Chargeable income from disposal gains	0	0.5
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	764,476	
Less: farming loss	0	0.5
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Taxable income	764,476	

The gain arising on the sale of shares listed on the Botswana Stock Exchange is exempt. 0.5

The farming loss can only be set-off against farming income. 0.5

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## (d) Foreign sourced income

Benson is not carrying on a business outside of Botswana; instead, he is rendering a service in Botswana to a foreign company and is liable to tax in Botswana on his income arising in Botswana. 1

Benson is representing, promoting and selling the foreign company's products in Botswana. The fact that income is paid into a foreign bank account is irrelevant for Botswana tax purposes. 1

The commission income paid to Benson outside of Botswana is deemed to be from a Botswana source and is therefore taxable in Botswana. 1

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**Tutorial note:** In terms of s.11(b) of the Botswana Income Tax Act the income received is deemed to be from a source situated in Botswana in respect of 'any service or work done by such person in Botswana, whether the payment therefore is made by a resident or non-resident and wherever payment is made'.