

Applied Skills

Taxation – Botswana (TX – BWA)

Tuesday 4 December 2018



TX 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.

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TX

Think Ahead

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Certified Accountants

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Chartered Accountants

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 A – ALL 15 questions are compulsory and MUST be attempted

Please use the grid provided on page two of the Candidate Answer Booklet to record your answers to each multiple choice question. Do not write out the answers to the MCQs on the lined pages of the answer booklet. Each question is worth 2 marks.

- 1 Payton Enterprises (Pty) Ltd (PEL) has an estimated taxable income of P2,350,000 for the financial year ended 30 September 2017. PEL has the following credits at that date:

	P
Self-assessment tax (SAT) paid	265,000
Withholding tax on dividends received	28,000
Withholding tax on interest received	16,000
Withholding tax on construction receipts	63,000

What is the minimum self-assessment tax (SAT) PEL should pay on 30 September 2017 in order to avoid any interest charge?

- A P148,600
B P69,600
C P85,600
D P41,600
- 2 Nicky has the following earnings/loss for the 2017/2018 tax year:

	P
Business income	875,400
Non-bank interest	42,165
Dividends	72,995
Rental – loss	(137,845)

How much is Nicky's chargeable income for the 2017/2018 tax year?

- A P852,715
B P779,720
C P737,555
D P917,565
- 3 Orion Financial Services (Pty) Ltd (OFS) is registered for value added tax (VAT) and made the following supplies during the tax period ended 25 October 2017:

	P
Interest received	178,329
Commission received	142,897
Residential rent received	43,922
Loan facility fee received	76,296

What are the standard rated output supplies made by OFS during the tax period ended 25 October 2017?

- A P120,218
B P263,115
C P254,625
D P219,193

- 4 The Botswana Unified Revenue Service (BURS) carried out a tax audit of Thusanyo Holdings (Pty) Ltd and raised revised tax assessments for the last eight years instead of four years.

In relation to the Botswana Unified Revenue Service (BURS) raising revised tax assessments for an additional four years, which of the following statements is/are true?

- (1) An assessment can be made at any time prior to eight years after the end of the tax year to which it relates
- (2) An assessment can be made at any time prior to eight years after the end of the tax year to which it relates if the taxpayer has misrepresented material facts
- (3) An assessment can be made at any time prior to eight years after the end of the tax year to which it relates if the taxpayer has submitted an incorrect tax return
- (4) A revised assessment can be made at any time if there has been fraud

- A 1 and 4
- B 2, 3 and 4
- C 4 only
- D 2 and 3 only

- 5 During the year ended 31 August 2017, Francistown Hotels (Pty) Ltd (FHL) paid interest amounting to P350,000 to a non-resident individual, P180,000 to a resident individual and P56,000 to a resident bank.

How much tax should FHL have deducted?

- A P76,100
- B P53,000
- C P70,500
- D P58,600

- 6 Keketso sold her principal private residence in the 2014 tax year and purchased another residence in the same tax year. The gain on the sale was exempt from tax. Keketso is now considering selling her current principal private residence.

What is the earliest tax year in which the sale of Keketso's current principal private residence will qualify for capital gains tax exemption?

- A 2019
- B 2020
- C 2023
- D 2024

- 7 The accounts of Phuti Traders (Pty) Ltd (PTL) for the 2017/2018 tax year include the following provisions:

	P
Provision for future expenses	258,227
Provision for interest payable	37,828
Provision for tax payable	62,889
Specific provision for bad debts	107,624

How much can PTL claim as a deduction in its 2017/2018 tax return?

- A P37,828
- B P466,568
- C P403,679
- D P145,452

- 8 Raju is a non-citizen employee of RK Consultants and received the following employment benefits for the 2017/2018 tax year:

	P
Company paid pension contribution	68,440
School fees paid by company	57,500
Contractual leave airfare to his country of hire	32,869
Company paid medical aid contribution	18,772

What amount of employment benefits should be included in Raju's chargeable income from employment?

- A P57,500
 - B P90,369
 - C P177,581
 - D P125,940
- 9 Star Products (Pty) Ltd (SPL) declared and paid a dividend to its shareholders in the 2017/2018 tax year as follows:

Dividend proposed by the directors on	28 July 2017
Dividend ratified at the annual general meeting on	20 August 2017
Dividend payable to shareholders registered on	30 September 2017
Dividend paid on	6 November 2017

By which date should SPL have paid dividend withholding tax?

- A 15 December 2017
 - B 15 September 2017
 - C 15 October 2017
 - D 15 August 2017
- 10 Gallery Garments (Pty) Ltd (GGL), which is registered for value added tax (VAT), received the following credit notes, exclusive of VAT, from suppliers relating to the tax period ended 30 September 2017:

	P
Goods returned to local suppliers	148,272
Price adjustments from local suppliers	46,007
Discounts given by non-resident suppliers	12,862
Correction of quantities delivered by non-resident suppliers	87,194

How much can GGL report as an output adjustment in its value added tax (VAT) return for the tax period ended 30 September 2017?

- A P235,466
 - B P294,335
 - C P194,279
 - D P281,473
- 11 Halson Manufacturing (Pty) Ltd (HML) is registered as a manufacturer for income tax purposes. In the 2017/2018 tax year HML expanded its factory premises at a cost of P1,947,560. The original cost in the 2000/2001 tax year was P5,000,000.

What is the maximum capital allowance claim which HML can make in the 2017/2018 tax year?

- A P611,890
- B P660,579
- C P535,579
- D P173,689

12 On 12 June 2018, Jason sold the following securities which were all listed on the Botswana Stock Exchange.

	Date purchased	Gain/(loss) P
Shares in Company A	November 2017	293,882
Debentures in Company B	February 2018	(52,531)
Share rights in Company C	December 2015	22,609
Preference shares in Company D	August 2013	18,443

What is the net capital gain which Jason should declare in his 2017/2018 tax return?

- A P181,013
- B P220,411
- C P282,403
- D P241,351

13 In addition to her salary, Doreen received the following amounts from her employer in the 2017/2018 tax year:

	P
Reimbursement of vehicle costs incurred for employment purposes	17,926
Entertainment allowance	24,000
Self-education costs	37,628
<i>Per diem</i> allowance for out of town travelling	12,726

How much of the above amounts constitute chargeable income from employment for Doreen in the 2017/2018 tax year?

- A P74,354
- B P92,280
- C P36,726
- D P24,000

14 Tshepo Textiles (Pty) Ltd (TTL) is registered for value added tax (VAT) and files its VAT returns on a monthly basis. TTL filed its VAT return for the month ended 30 June 2018 and paid the VAT due on 14 August 2018. The VAT return was due on 25 July 2018. The VAT payable amounted to P137,840.

What is the penalty TTL will be charged for the late submission of its value added tax (VAT) return, and the late payment of its VAT liability for the month ended 30 June 2018?

- A P13,784
- B P2,100
- C P27,568
- D P2,068

15 Prestige Bakery (Pty) Ltd (PBL) is considering investing in capital expenditure on new baking ovens in the 2017/2018 tax year.

In relation to PBL making a possible capital allowances claim in respect of the baking ovens for the 2017/2018 tax year, which of the following statements is/are NOT true?

- (1) The expenditure must have been incurred by the taxpayer
- (2) The asset must have been brought into use
- (3) The claim must not be less than 10% and not more than 25%
- (4) An initial allowance and an annual allowance may be claimed

- A** 4 only
- B** 2 and 4
- C** 1 and 3
- D** 3 and 4

(30 marks)

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** Masunga Property Company (Pty) Ltd (MPC) sold Plot 416 Francistown for proceeds of P8,500,000 in July 2017. Plot 416 Francistown was an industrial building which earned rental income. In January 2018, MPC purchased Plot 31 Kasane, a commercial property that also earns rental income, for P3,500,000.

MPC also sold shares in Power Lines (Pty) Ltd for P1,450,000 in May 2018.

Further information:

1. The cost price of Plot 416 Francistown was:

		P
Land	May 2006	120,000
Building	November 2006	935,000
Extension	February 2011	1,700,000
		<u>2,755,000</u>

2. The cost of the shares in Power Lines (Pty) Ltd was P300,000 in September 2010. This amount included P50,000 relating to an option to purchase further shares in Power Lines (Pty) Ltd in January 2012, however, this option has never been exercised.
3. MPC has a capital loss brought forward amounting to P236,058.

Required:

In respect of Masunga Property Company (Pty) Ltd for the year ended 30 June 2018:

- (a) Calculate the net disposal gain or loss resulting from the disposal of Plot 416 Francistown assuming all available reliefs are claimed. (5 marks)
- (b) Calculate the taxable income or loss arising from the disposal of all capital assets, including Plot 416 Francistown. (5 marks)

(10 marks)

- 2 Transunion Products (Pty) Ltd (TP) trades in machine parts in Botswana as well as engaging in importing and exporting activity.

The transactions of TP, exclusive of value added tax (VAT), for the tax period ended 31 August 2017 were as follows:

	Notes	P
Income		
Sales – local		2,638,719
Sales – foreign		782,163
Profit on sale of vehicles	1	37,455
Interest received		26,791
Dividends received		15,992
Discount received		18,210
		<u>3,519,330</u>
Expenses		
Purchases – local		263,072
Purchases – foreign		1,025,622
Sales returns – foreign		47,224
Purchase of second hand saloon car		160,000
Purchase of second hand machinery		205,000
Salaries and wages		762,981
Administrative expenses	2	862,294
Loss on sale of shares	3	75,000
Bad debt	4	28,937
		<u>3,430,130</u>

Notes:

1. The profit on sale of vehicles is made up as follows:

	Saloon car P	Seven ton truck P	Total P
Cost	275,000	567,000	842,000
Depreciation	<u>(187,395)</u>	<u>(392,060)</u>	<u>(579,455)</u>
	87,605	174,940	262,545
Sales proceeds	<u>100,000</u>	<u>200,000</u>	<u>300,000</u>
Profit on sale of vehicles	<u>12,395</u>	<u>25,060</u>	<u>37,455</u>

2. Administrative expenses include:

	P
Commission paid – local	118,524
Hotel costs of travelling salesmen	18,929
Entertainment allowances	10,752
Repairs to residential houses	27,802
Management fees – local	30,000
	<u>206,007</u>

3. The loss on sale of shares is made up as follows:

	P
Cost	225,000
Fair value adjustment	100,000
Less: sale proceeds	<u>(250,000)</u>
Loss on sale of shares	<u>75,000</u>

4. A trade receivable from a company which had been placed in liquidation was written off as a bad debt in August 2017. The VAT on the original supply was paid in February 2017.

Additional Information:

Where relevant, all suppliers are VAT registered.

Required:

In respect of Transunion Products (Pty) Ltd for the tax period ended 31 August 2017:

- (a) Calculate the amount of administrative expenses in respect of which an input deduction can be claimed for value added tax (VAT) purposes.

Note: You should start your computation with the total administrative expenses figure of P862,294.

(2 marks)

- (b) Calculate the VAT payable or refundable.

Note: Your answer should split supplies and inputs between standard rated, zero-rated, exempt and non-taxable.

(8 marks)

(10 marks)

- 3** The following payments, exclusive of withholding tax, were made by Thobega Enterprises (Pty) Ltd for the year ended 30 September 2017:

Expenses paid to non-resident individuals	P
Purchases	1,378,295
Advertising	26,881
Rent of premises	150,680
Marketing fees	321,160
Transport	580,496
Insurance	177,528
Technical fees	267,180
Expenses paid to resident individuals	P
Interest	36,830
Rent of equipment	127,629
Construction contractor	648,400
Royalties	62,814
Commission	182,910

Required:

In respect of Thobega Enterprises (Pty) Ltd for the year ended 30 September 2017:

- (a) Calculate the tax which should have been withheld from the above payments.**

Note: You should indicate the expenses paid from which withholding tax should not have been deducted, by the use of a zero (0). (6 marks)

- (b) Identify the expenses paid by Thobega Enterprises (Pty) Ltd and the associated withholding tax, which represent a final charge to Botswana tax on the recipient.** (2 marks)

- (c) Identify the expenses paid by Thobega Enterprises (Pty) Ltd and the associated withholding tax, which the recipient can claim as a tax credit against their Botswana tax liability.** (2 marks)

(10 marks)

4 You should assume today's date is 2 December 2018.

Ronald Nakedi runs his own business. He approaches you to advise him on his tax affairs and what action he should take in relation to the following matters:

- (i) Ronald received his tax assessment for the tax year 2015/2016 on 17 November 2018. He is aggrieved that the Botswana Unified Revenue Service (BURS) has disallowed the following costs:

	P
Travel and entertainment	56,721
Repairs and maintenance	35,096
Consultancy fees	47,319
Public relations costs	30,722

Ronald is adamant that the above costs are genuine business costs.

- (ii) Ronald also disputes his tax assessment for the tax year 2014/2015 which he received on 12 February 2018. He paid the uncontested amount but has not paid the disputed amount of P42,847, and he has not entered into any correspondence with BURS.
- (iii) Ronald has not yet submitted his tax returns for the tax years 2016/2017 and 2017/2018.

Required:

- (a) **Explain the options available to Ronald in respect of the disputed tax assessments for the tax years 2014/2015 and 2015/2016.** (5 marks)

- (b) **What must Ronald demonstrate to the Botswana Unified Revenue Service to show the disallowed costs are deductible for income tax purposes?** (2 marks)

- (c) **Calculate the monthly interest Ronald is being charged in respect of unpaid tax.**

Note: You should ignore the effect of compounding and assume that only tax in respect of the 2014/2015 tax year is outstanding. (1 mark)

- (d) **Explain whether any penalties will apply to Ronald as a result of the late submission of his tax returns for the tax years 2016/2017 and 2017/2018.**

Note: You are not required to prepare a calculation in this part. (2 marks)

(10 marks)

- 5 Metropolitan Properties Ltd is a property investment company. The results for the year ended 30 June 2018 are as follows:

	Notes	P
Income		
Rental income	1	8,555,787
Revaluation of immovable properties		2,158,243
Profit on sale of immovable property A	2	<u>1,100,000</u>
		<u>11,814,030</u>
Expenses		
Administrative expenses (all deductible)		2,673,527
Impairment of intangible assets		1,672,453
Loss on sale of fixed assets	3	61,128
Interest paid on loan	4	2,678,841
Interest paid on late tax payments		83,675
Repairs and maintenance to properties	5	<u>2,152,664</u>
		<u>9,322,288</u>
Net profit		<u>2,491,742</u>

Notes:

1. Rental income is made up as follows:

	P
Rents received and accrued	8,362,915
IAS 17 rental smoothing adjustment year ended 30 June 2017	(367,951)
IAS 17 rental smoothing adjustment year ended 30 June 2018	<u>560,823</u>
	<u>8,555,787</u>

2. The profit on sale of immovable property A is as follows:

	P
Sales proceeds	3,500,000
Cost	(1,850,000)
Fair value adjustments	<u>(550,000)</u>
	<u>1,100,000</u>

Capital allowances amounting to P236,530 had been granted in respect of property A.

The capital gain on disposal of property A amounted to P1,450,675. A new property B costing P4,500,000 was purchased during the year.

3. During the year, the company sold all of its fixed assets apart from immovable property. The loss on sale of fixed assets owned by the company is made up as follows:

	P
Cost	426,906
Depreciation	<u>(178,256)</u>
	248,650
Sales proceeds	<u>187,522</u>
Loss on sale of fixed assets	<u>(61,128)</u>

Capital allowances on these assets amounting to P296,834 have been granted.

4. All loan interest was paid to a non-resident individual. Withholding tax amounting to P234,662 was paid during the year in relation to that interest.

5. Repairs and maintenance to properties is made up as follows:

	P
Costs incurred	1,902,664
Provision for maintenance year ended 30 June 2017	(500,000)
Provision for maintenance year ended 30 June 2018	750,000
	<u>2,152,664</u>

6. The cost of immoveable property is as follows:

	Commercial P	Industrial P	Total P
Cost at 1 July 2017	31,973,924	10,888,889	42,862,813
Sale of property A	(1,850,000)		(1,850,000)
Cost of new property B		4,500,000	4,500,000
Cost at 30 June 2018	<u>30,123,924</u>	<u>15,388,889</u>	<u>45,512,813</u>

7. The following tax payments and withholding tax payments were made during the year. These amounts are in addition to the withholding tax paid on interest (Note 4):

	P
Self-assessment tax (SAT)	50,000
Withholding tax on rents	418,145
	<u>468,145</u>

Required:

In respect of Metropolitan Properties Ltd for the year ended 30 June 2018:

- (a) Calculate the capital gain on the sale of property A after all available reliefs. (1 mark)
- (b) Calculate the claim for capital allowances on immoveable property. (4 marks)
- (c) Calculate the balancing charge or allowance on the disposal of all of the company's fixed assets apart from immoveable property. (1 mark)
- (d) Calculate the taxable income. (9 marks)

(15 marks)

- 6 Benson Tangane is a business person, resident in Botswana, who owns and manages a retail outlet called Strategic Concepts. In addition, Benson is the local agent for a foreign based company.

The results of Strategic Concepts for the year ended 30 June 2018 are as follows:

	Notes	P	P
Income			
Sales			8,938,253
Cost of sales	1		<u>(6,372,186)</u>
			2,566,067
Medical aid refunds		27,518	
Proceeds on sale of shares	2	142,765	
Interest received		37,619	
Proceeds on sale of personal assets		<u>28,624</u>	<u>236,526</u>
			2,802,593
Expenses			
Salary Benson Tangane		720,000	
Salary James Tangane	3	480,000	
Stock written off	4	300,000	
Mortgage bond payments in respect of Benson's private house	5	252,348	
Wages		892,567	
Deductible costs		1,056,293	
Benson's holiday costs		28,715	
Architects' fees in respect of Benson's private house		76,218	
Donation to political party		<u>15,000</u>	<u>(3,821,141)</u>
Net loss			<u>(1,018,548)</u>

Notes:

1. Cost of sales includes a purchase of building materials for Benson's house costing P263,905.
2. Shares were sold in ABC Ltd – a company listed on the Botswana Stock Exchange. The original cost was P47,500 in March 2011.
3. James Tangane is Benson's brother who works full time in the business.
4. Certain stock that had been on hand for a number of years was written off due to obsolescence.
5. Benson built himself a house during the year which was funded by a mortgage bond from a financial institution.

Additional Information:

1. Benson received agent's commission amounting to P852,173 from the foreign company for which he is the local agent. This amount was paid directly into a bank account which he holds outside of Botswana. One of the sales was subsequently cancelled and in August 2018 Benson had to repay the commission received which amounted to P48,167. During the year, Benson travelled overseas for essential training on the products he represents. The travel costs of P178,261 were borne by Benson.
2. Benson has a share in his uncle's farm. There was no income in the current year and he has a farming loss carried forward of P68,024.

Required:

In respect of Benson Tangane for the year ended 30 June 2018:

- (a) Calculate his chargeable income or loss from the Strategic Concepts business.

Note: You should start your computation with the net loss figure of P1,018,548. (6 marks)

- (b) Calculate his chargeable income or loss from his agency activities. (3 marks)

- (c) Calculate his taxable income from all sources, briefly explaining your treatment of the farming loss and the gain on sale of shares. (3 marks)

- (d) Benson has questioned why he should pay Botswana tax on his commission from the foreign company, which he believes to be foreign sourced income.

Provide three reasons why Benson's commission is liable to tax in Botswana. (3 marks)

(15 marks)

End of Question Paper