Answers

Section B *Marks*

1 Newage Timber Products

(a) Net disposal gain

		Original cost	Indexation	Tax cost		
		P	P	P	P	
Plot 882 Mahalapye						
Land	July 2008	500,000	283,628 (W1)	783,628		1
Buildings	June 2012	800,000	158,246 (W2)	958,246		1
Extensions	August 2013	225,000	28,630 (W3)	253,630		1
Boundary	May 2014	475,000	40,669 (W4)	515,669		1
		2,000,000	511,173	2,511,173		
Sale price				2,300,000	(211,173)	0·5
Residential property						
Cost	April 2010	280,000	117,086 (W5)	397,086		1
Sale price				400,000	2,914	0·5
Net assets						
Goodwill				675,000		0·5
Less: 25% moveable property allowance				(168,750)	506,250	0·5
Trading licence						
Sale price				650,000		0·5
Less: cost				(250,000)		0·5
				400,000		
Less: 25% moveable property allowance				(100,000)	300,000	1
Net disposal gain					597,991	
						9

Workings:

1. (1,781·5 – 1,136·7)/1,136·7 x P500,000 = P283,628
2. (1,781·5 – 1,487·3)/1,487·3 x P800,000 = P158,246
3. (1,781·5 – 1,580·4)/1,580·4 x P225,000 = P28,630
4. (1,781·5 – 1,641·0)/1,641·0 x P475,000 = P40,669
5. (1,781·5 – 1,256·2)/1,256·2 x P280,000 = P117,086

(b) Rate of tax at which disposal gain taxed

Net disposal gains	22%	1
		10

2 Evergreen Retailers

(a) Adjustment discussion

1. Recording purchase returns as sales returns has increased outputs instead of decreasing outputs. The reported output should be corrected. 1
2. The value of a supply is the consideration received for that supply and not the accounting profit.

   The input on the purchase of a saloon car is a prohibited input and so the sale of that saloon car does not attract VAT.

   Accordingly, the output included in the return of P13,052 should be removed. 1·5
3. A gym for the use of staff is considered to be entertainment and therefore a prohibited input. The P85,962 must be disallowed as an input credit. 1
4. Residential rent is an exempt supply and so an input tax credit cannot be claimed for the P183,500. 1

	Marks
5. Any post-sale adjustment such as a credit note in respect of a supply must mirror that supply.	
The supply was zero rated and so the credit note must also be zero rated.	
Accordingly, there should be no input credit claim for the returns of P45,826.	1·5
	6

(b) Revised excess output computation

	P	
Excess outputs originally reported	1,036,911	
Add: credit notes (zero rated disallowed)	45,826	0·5
Add: residential rent disallowed	183,500	0·5
Add: cost of gym disallowed	85,962	0·5
Less: sales returns corrected (P78,291 x 2)	(156,582)	1·5
Less: profit on sale of saloon car	(13,052)	1
Revised excess of outputs over inputs	1,182,565	
		4
		10

3 Ngami Canvas Products

(a)

	Amount of tax withheld	**Withholding tax available as a credit**	
	P	P	
Interest paid to non-resident	24,427	0	0·5
Technical fees	41,404	0	0·5
Dividend	37,500	0	0·5
Commission	13,808	13,808	0·5
Royalties	29,431	0	0·5
Residential rent	4,320	4,320	0·5
Construction contract	6,838	6,838	0·5
Interest paid to resident shareholder	23,626	23,626	0·5
	181,354	48,592	4

(b) Correct withholding tax on interest paid to a resident

	P	
Interest paid to a resident	236,260	
Less: annual exemption	(7,800)	1
Liable to withholding tax	228,460	
10% of P228,460	22,846	1
		2

(c) The need for withholding tax

The collection of tax from non-residents is more difficult and time consuming than taxing residents of Botswana. 1

Botswana can enforce its laws on the making of tax returns and payment of tax on its own residents, but it is virtually impossible to enforce such laws on non-residents. This is because the revenue authority in one country will not have any jurisdiction in another country. 1

The requirement to withhold tax on payments to non residents is imposed by Botswana on Botswana residents, who are automatically within Botswana's legal jurisdiction. In this way, the Botswana Tax Authority is more certain of collecting tax due from non-residents, because if the resident payer fails to withhold tax on the payment to the non-resident, that resident becomes liable to pay the tax. 2

4

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		Marks

4 Taxation principles

(a) Purpose of taxation

The main purpose of taxation is to raise funds for the Government. Governments generally pay for roads, hospitals, the police force, etc and the costs of these services to the public need to be funded from various sources, one of which is taxation.	1
There are also economic and social purposes of taxation such as redistribution of wealth from the rich to the poor.	1
	2

(b) Direct and indirect taxes

A direct tax is a tax on a person, whether an individual or a company, and is a tax charged directly on that person's income or wealth. Examples are:	1
(i) Income tax – tax on income.	
(ii) Capital transfer tax – tax on wealth.	
(iii) Municipal property rates – tax on ownership of property.	2
An indirect tax is a tax on transactions rather than on a person although it is ultimately borne by the consumer. The person then has the choice of making the transaction or not and therefore the choice whether to pay the tax or not. Examples are:	1
(i) VAT – tax on transactions.	
(ii) Excise duty – tax on specific products.	
(ii) Customs duty – tax on imports.	2
	6

(c) Tax law and practice in Botswana

(i) Statutory law – Income Tax and VAT Acts.	0·5
(ii) Case law – judgements by the courts.	0·5
	1

(d) The role of Departmental Guidance Notes

The Revenue Authority issues Departmental Guidance Notes (DGNs) to indicate to taxpayers how the various sections of the legislation will be interpreted and how the taxpayer can expect to be treated.	1
	10

5 Quality Agencies (Pty) Ltd

(a) Capital allowances

Balancing charge/allowance on disposal of non-current assets

	P	
Original cost	428,500	
Less: capital allowances	(373,068)	
	55,432	0·5
Sales proceeds	120,000	0·5
Balancing charge	64,568	
Less: rollover relief	(64,568)	1
	0	

Total capital allowance claim

	P	
Capital allowances – given in question	381,004	0·5
Annual allowance: (P393,682 x 15%) (Working)	59,052	0·5
Total capital allowance claim	440,056	

Marks

Working:

	P	Marks
Cost of replacement non-current assets	458,250	0·5
Less: rollover relief	(64,568)	0·5
Tax cost	393,682	
		4

(b) Taxable income

	P	P	Marks
Net loss per accounts		(38,743)	
Add: depreciation	488,297		0·5
Add: fair value adjustment	350,000		0·5
Add: impairment of non-current assets	563,782		0·5
Add: loss on sale of non-current assets	59,829		0·5
Add: loss on sale of shares	147,824		0·5
Add: VAT interest	37,528		0·5
Add: provisions balance 31 December 2017	255,934	1,903,194	0·5
Less: capital allowances (part (a))	440,056		0·5
Less: dividends received	34,906		0·5
Less: provisions balance 31 December 2016	175,982	(650,944)	0·5
		1,213,507	
Add: net disposal gain (Working)		39,132	0·5
Taxable income		1,252,639	

Working:

	P	Marks
Cost of shares	267,824	
Sales price	320,000	
	52,176	0·5
25% moveable property allowance	(13,044)	1
Net disposal gain	39,132	
		7

(c) Final SAT payment

	P	P	Marks
Tax at 22% on P1,252,639 (Part (b))		275,581	0·5
Less: SAT paid	150,000		0·5
Less: withholding tax on commissions	36,723		0·5
Less: withholding tax on rents	4,691		0·5
Less: withholding tax on interest	9,383		0·5
Less: withholding tax on dividends	0	(200,797)	0·5
Final SAT payment due		74,784	
			3

(d) Date of final SAT payment

30 April 2018. 1

15

Marks

6 (a) Koponang Tladi

(i) Chargeable income from KT Architects

	P	P	Marks
Net profit per accounts		615,136	
Add: depreciation	97,263		0·5
Add: drawings	480,000		0·5
Add: family holiday cost	45,227		0·5
Add: income tax	58,291		1
Add: children's school fees	37,628		0·5
		718,409	
Less: capital allowances (P1,623,824 x 15%)	243,574		0·5
Less: net building society interest received	29,601		1
Less: dividends received	49,654		0·5
		(322,829)	
Chargeable income from business		1,010,716	
			5

(ii) Net disposal gain

	P	Marks
Proceeds on sale of 20%	650,000	0·5
Less: cost	0	0·5
	650,000	
Less: 25% moveable property allowance	(162,500)	1
Net disposal gain	487,500	
		2

Tutorial note: *Note that the sale of 20% takes place after the financial year end of the practice but before the tax year end. Accordingly, the sale does not affect Koponang's chargeable income from business but the net disposal gain will be taxed in the 2017/2018 tax year.*

(iii) Chargeable income from rents

	P	P	Marks
Net rents received		867,046	0·5
Add: withholding tax deducted		45,634	1
		912,680	
Less: insurance	27,289		0·5
Less: repairs and maintenance	88,361		0·5
Less: security	48,937		0·5
Less: capital allowances (P6,513,360 x 2·5%)	162,834	(327,421)	1
		585,259	
			4

(b) Employment benefits

	P	Marks
Housing (P220 x P250 x 8%)	4,400	0·5
Furniture ((P94,000 – P15,000) x 10%)	7,900	0·5
House utilities	16,725	0·5
Company car	10,000	0·5
Medical aid	0	0·5
Return airfare to place of hire	0	0·5
School fees	23,500	0·5
Pension contribution	0	0·5
	62,525	
		4
		15