

Applied Skills

# Taxation – Botswana (TX – BWA)

Tuesday 3 December 2019



**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.**

BWA  
—  
TX

Think Ahead

**ACCA**

**bica**  
Botswana Institute of  
Chartered Accountants

The Association of Chartered  
Certified Accountants

The Botswana Institute of  
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**  
2018/2019 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% |
|-----------------------------|-----|

**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%            |

**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 |

|           | <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      | 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      |

|           | <b>2017</b> | <b>2018</b> |
|-----------|-------------|-------------|
| January   | 1769·2      | 1823·5      |
| February  | 1772·7      | 1828·8      |
| March     | 1781·5      | 1832·3      |
| April     | 1795·5      | 1856·8      |
| May       | 1799·0      | 1858·6      |
| June      | 1802·5      | 1858·6      |
| July      | 1804·3      | 1860·3      |
| August    | 1806·0      | 1860·3      |
| September | 1807·8      | 1860·3      |
| October   | 1807·8      | 1872·6      |
| November  | 1811·3      | 1879·6      |
| December  | 1816·5      | 1881·3      |

**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 Kaelo sold his shares in Kgalagadi Music Stores (Pty) Ltd for P842,000 during the 2018/2019 tax year. The original cost of the shares was P273,000. He incurred costs amounting to P89,052 in relation to this. He also has a loss brought forward from the prior year amounting to P67,382 which arose on the sale of shares listed on the Botswana Stock Exchange.

**How much is Kaelo's net disposal gain for the 2018/2019 tax year?**

- A P426,750
  - B P309,424
  - C P412,566
  - D P501,618
- 2 Pula Pumps (Pty) Ltd's (PPL) financial year end is 30 April 2019. PPL submitted its 2018/2019 income tax return on 28 November 2019 and also paid the tax owing for that tax year of P45,362 on that date.

**How much penalty and interest will PPL have to pay for late submission and payment?**

- A P10,941
  - B P10,271
  - C P10,972
  - D P11,622
- 3 Compass Properties (Pty) Ltd is a property company which earns commercial rental income of P25,000 per month and wishes to voluntarily register for value added tax (VAT).

**What is the minimum amount of taxable supplies per annum which is required before a person can voluntarily register for VAT?**

- A P0
  - B P250,000
  - C P1,000,000
  - D P500,000
- 4 Idah suffered the following amounts of tax withheld from her 2018/2019 income sources:

|               | P      |
|---------------|--------|
| Commission    | 11,062 |
| Bank interest | 7,426  |
| Dividends     | 4,893  |
| Rent          | 26,791 |

**How much can Idah claim as a credit against her 2018/2019 tax liability?**

- A P37,853
- B P50,172
- C P45,279
- D P42,746

5 Trumpet Interiors (Pty) Ltd (TIL) sold a used machine during the 2018/2019 tax year. The details are as follows:

|  | P       |
|--|---------|
| Original cost                            | 365,000 |
| Fair value adjustment                    | 125,000 |
| Sale price                               | 280,000 |
| Capital allowances claimed               | 198,750 |
| Rollover relief applied to original cost | 100,000 |

**How much is the balancing charge/(allowance) which TIL should declare in the 2018/2019 tax year?**

- A P88,750
- B (P11,250)
- C P113,750
- D P213,750

6 In addition to his salary of P600,000 for the 2018/2019 tax year, Ronald received the following employment benefits:

|                           | P            |
|---------------------------|--------------|
| Medical aid contributions | 16,000       |
| House rent allowance      | 52,000       |
| School fees               | 27,000       |
| Company car               | Cost 340,000 |

**How much is Ronald's taxable income for 2018/2019?**

- A P710,000
- B P674,000
- C P726,000
- D P658,000

7 Wild Horizons (Pty) Ltd (WHL) is a tourist safari operator and is registered for value added tax (VAT). WHL incurred the following items of expenditure during the tax period ended 25 April 2019:

- (1) Entertainment for tourists
- (2) A game-viewing vehicle
- (3) Hotel costs for staff
- (4) A saloon car

**Which of the expenditure items is/are prohibited for the purpose of input VAT credit?**

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

- 8 Caledonian Catering Services (Pty) Ltd's (CCS) financial year end is 30 June 2019 and its estimated taxable income for the 2018/2019 tax year is P2,000,000. CCS has paid the following tax at 30 June 2019:

|  | P       |
|--|---------|
| Self-assessment tax (SAT)                      | 250,000 |
| Withholding tax on bank interest received      | 62,839  |
| Withholding tax on dividends received          | 21,725  |
| Withholding tax on brokerage payments received | 15,803  |

**How much SAT should CCS pay at 30 June 2019 to ensure that no interest is charged?**

- A P86,197  
 B P1,633  
 C P89,633  
 D P23,358
- 9 Strategic Outcomes (Pty) Ltd (SOL) sold its financial services division for the sum of P10 million during the 2018/2019 tax year. The sale included the following assets and liabilities:

|                     | P         |
|---------------------|-----------|
| Non-current assets  | 1,000,000 |
| Inventory           | 1,200,000 |
| Accounts receivable | 3,000,000 |
| Accounts payable    | (800,000) |
| Bank loan           | (500,000) |

**How much is SOL's net disposal gain?**

- A P6,100,000  
 B P4,575,000  
 C P7,100,000  
 D P4,350,000
- 10 Elias Kalake is the managing director of Egret Chemicals (Pty) Ltd (ECL). Elias' remuneration for the tax year ended 30 June 2019 is as follows:

|   | P       |
|---|---------|
| Salary  | 600,000 |
| Board of directors fees                       | 20,000  |
| Production bonus                              | 75,000  |
| Employer medical aid contribution             | 24,000  |
| Employer contribution to company pension fund | 60,000  |

**How much PAYE should ECL deduct from Elias' remuneration for the tax year ended 30 June 2019?**

- A P145,800  
 B P160,800  
 C P150,800  
 D P171,800



11 The Botswana Unified Revenue Service (BURS) is considering raising revised assessments on Clancey Jewellers (Pty) Ltd during 2018/2019.

**Which of the following tax years are out of time, at 30 June 2019, for a revised assessment to be raised?**

- (1) 2009/2010
- (2) 2012/2013
- (3) 2013/2014
- (4) 2014/2015

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

12 Tembo Products (Pty) Ltd (TPL), a supplier of building supplies, recorded chargeable income of P3,476,093 for the 2018/2019 tax year. TPL has the following unutilised tax losses brought forward from prior years:

|           | P         |
|-----------|-----------|
| 2011/2012 | 46,082    |
| 2012/2013 | 1,207,336 |
| 2013/2014 | 1,380,832 |
| 2016/2017 | 785,498   |

**What is TPL's taxable income for 2018/2019?**

- A P102,427
- B P2,690,595
- C P56,345
- D P1,309,763

13 Ophthalmic Laboratories (Pty) Ltd (OLL) made the following payments to residents in 2018/2019:

|                       | P       |
|-----------------------|---------|
| Rent of equipment     | 364,180 |
| Commission            | 89,640  |
| Technical fees        | 200,760 |
| Interest on bank loan | 67,930  |

**How much withholding tax should OLL have deducted and paid over in 2018/2019?**

- A P33,966
- B P54,042
- C P8,964
- D P25,002

14 Kehumile is a farmer and he incurred the following capital expenses during 2018/2019:

|                   | P       |
|-------------------|---------|
| Diesel generators | 106,280 |
| 1 ton truck       | 180,000 |
| Borehole pumps    | 68,945  |
| Bridge            | 96,035  |

**How much deduction can Kehumile claim from his farming income in respect of the above expenditure in 2018/2019?**

- A P207,922
- B P451,260
- C P191,980
- D P164,980

15 Darton Printers (Pty) Ltd (DPL) has incurred expenditure on the use of patents, trademarks and copyrights.

**Over what period can DPL claim a deduction for such expenditure?**

- A Ten years
- B The period for which DPL is entitled to use the intangible assets
- C Five years
- D The period for which the intangible assets earn income for DPL

**(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** Tuli Soap Industries (Pty) Ltd entered into the following immovable property transactions during the year ended 31 March 2019:

- (i) Sold Plot 15324, Gaborone, a residential property, in October 2018 for a sum of P1,850,000. The property had cost P1,200,000 in May 2014.
- (ii) Sold Plot 761, Phakalane, an industrial property, in May 2018 for P11,540,000. The cost of the property is made up as follows:

|                  |               | P                |
|------------------|---------------|------------------|
| Land             | December 2010 | 2,000,000        |
| Factory building | July 2011     | 3,682,500        |
| Extension        | February 2016 | 1,629,632        |
|                  |               | <u>7,312,132</u> |

- (iii) Purchased Plot 68, Ramotswa, a vacant industrial property, for P1,425,000 in June 2018. A factory building costing P15,226,750 was constructed on the land and was completed in February 2019.
- (iv) Purchased Plot 67, Ramotswa, a vacant industrial property, for P850,000 in August 2018.
- (v) Sold Plot 491, Jwaneng, a commercial property, for P720,000 in April 2018. The original cost was P1,500,000 in August 2011.

**Required:**

**In respect of Tuli Soap Industries (Pty) Ltd for the year ended 31 March 2019:**

- (a) Calculate the net disposal gain or loss, claiming all available reliefs:** (6 marks)
- (b) List FOUR requirements for claiming rollover relief.** (2 marks)
- (c) Show the effect of claiming rollover relief on the base cost of the assets purchased during the year.** (2 marks)

**(10 marks)**

- 2** Macstan Packaging (Pty) Ltd (MPL) supplies packaging and is registered for value added tax (VAT). The company accountant has entered into various transactions but is uncertain of the correct VAT treatment and has requested your advice in respect of the company's VAT return for the tax period ended 31 March 2019.

The provisional standard rated outputs and inputs for the period, prior to making any adjustments, have resulted in net outputs of P762,950. Unless otherwise stated, the following transactions 1 to 8 have NOT been included in the provisional outputs and inputs:

1. During the period, MPL traded in a single cab bakkie in exchange for a saloon car. The saloon car would have cost P225,000 with no trade-in and the trade-in value of the single cab bakkie was P48,000. Both figures are exclusive of VAT. A net payment of P198,240 was made but has not yet been included in output or input supplies.
2. MPL supplied services during the period to a charitable organisation for P100,000 and this amount has been recorded as an output. The fair market value of the supply is P140,000.
3. MPL received a deposit from a customer of P50,000 during the period, in respect of a supply which will take place in the future. The deposit will be considered as a payment when the goods are physically supplied.
4. MPL received services from a foreign supplier amounting to the equivalent of P68,200. The supplier has also charged foreign VAT on the supply amounting to P6,820.
5. A portion of an irrecoverable debt previously written off was recovered. The amount recovered was P14,560.
6. MPL issued a credit note to a supplier for P20,250, exclusive of VAT, for goods returned.
7. MPL purchased a second hand machine for P35,000. The supplier was not registered for VAT and accordingly did not charge any VAT.
8. MPL received an indemnity payment from its insurance company relating to stolen goods amounting to P63,000.

**Required:**

- (a) Calculate the net VAT payable by Macstan Packaging (Pty) Ltd for the tax period ended 31 March 2019 after making any applicable adjustments in relation to transactions 1 to 8 above.**

**Note:** You should start your answer with the VAT payable on the net outputs of P762,950 and indicate by the use of a zero (0) any amounts on which VAT is not chargeable or not reclaimable. (8 marks)

- (b) Briefly state the VAT requirements for imports and exports.** (2 marks)

**(10 marks)**

**This is a blank page.  
Question 3 begins on page 14.**

- 3 You are preparing the tax return for Thebe Design and Graphics (Pty) Ltd for the financial year ended 30 June 2019 and you have been provided with the following statement of profit or loss for the year then ended:

|                        | Notes | P                |
|------------------------|-------|------------------|
| <b>Income</b>          |       |                  |
| Revenue                |       | 8,524,092        |
| Cost of sales          |       | (3,383,811)      |
|                        |       | <u>5,140,281</u> |
| <b>Expenses</b>        |       |                  |
| Advertising            | 1     | 108,482          |
| Commission             | 2     | 252,291          |
| Interest               | 3     | 196,865          |
| Management fees        | 4     | 642,810          |
| Marketing fees         | 5     | 450,000          |
| Office and staff costs |       | 1,872,906        |
| Technical fees         | 6     | 287,400          |
|                        |       | <u>3,810,754</u> |
| Profit before tax      |       | <u>1,329,527</u> |

**Notes:**

1. An amount of P36,822 was paid to a non-resident supplier of a trade magazine for an advert. This amount is included in the figure of P108,482.

2. Commission was paid to:

|                                | P              |
|--------------------------------|----------------|
| Resident sales staff           | 87,291         |
| Resident sales company         | 73,560         |
| Non-resident marketing company | 91,440         |
|                                | <u>252,291</u> |

PAYE was deducted from the commission paid to resident sales staff.

3. Interest was paid to:

|                      | P              |
|----------------------|----------------|
| Resident bank        | 34,095         |
| Resident shareholder | 162,770        |
|                      | <u>196,865</u> |

4. Management fees were paid to a resident company.
5. Marketing fees were paid to a non-resident marketing company which received a flat annual fee followed by a commission based on sales (the commission is included in note 2 above).
6. Technical fees were paid to a non-resident company.
7. The following withholding tax was paid during the year:

|                | P             |
|----------------|---------------|
| Commission     | 4,572         |
| Interest       | 12,300        |
| Technical fees | 22,098        |
|                | <u>38,970</u> |

**Required:**

**In respect of Thebe Design and Graphics (Pty) Ltd for the year ended 30 June 2019:**

- (a) **State the correct amount of withholding tax which should have been paid, assuming that all expenses were paid and no expenses were accrued.**

Note: You should indicate those items on which no withholding tax is due by the use of a zero (0). (4 marks)

- (b) **Calculate the taxable income, starting with the profit before tax figure of P1,329,527.**

Note: You should only include in your answer any items which require adjustment. (3 marks)

- (c) **State, in general terms, the date by which withholding tax should be paid over to the Botswana Unified Revenue Service (BURS) and explain the consequences of late payment.** (3 marks)

**(10 marks)**

- 4 Tshepo Ditau earns income from a number of different sources. For the 2018/2019 tax year, he earned the following amounts of chargeable income and also incurred losses:

|                 | Notes | P              |
|-----------------|-------|----------------|
| Business income | 1     | 173,829        |
| Pension income  |       | 126,398        |
| Rental loss     |       | (47,286)       |
| Interest income | 2     | 38,994         |
| Dividend income |       | 89,362         |
| Farming loss    | 3     | (90,516)       |
|                 |       | <u>290,781</u> |

**Notes:**

1. Tshepo has a loss brought forward from the year ended 30 June 2018 in respect of his business amounting to P266,301 made up as follows:

|                         | P              |
|-------------------------|----------------|
| Year ended 30 June 2017 | 51,364         |
| Year ended 30 June 2014 | 214,937        |
|                         | <u>266,301</u> |

2. Interest was received in respect of a loan provided to a business colleague.
3. Tshepo is a partner in a farming venture with his brother and is entitled to 50% of the profit or loss. The overall loss brought forward at 30 June 2018 in respect of the farming venture is P192,962. The overall farming loss for the current year ended 30 June 2019 is P181,032.

**Required:**

**In respect of Tshepo Ditau for the 2018/2019 tax year:**

- (a) Calculate the loss(es) carried forward to the 2019/20 tax year.

Note: Your answer should briefly explain any rules concerning the set off of losses in the current year and the carry forward of losses from the various types of activity carried on by Tshepo. (7 marks)

- (b) Calculate the taxable income.

Note: You should indicate by the use of a zero (0) any items which are not taxable or which do not result in a deduction. (3 marks)

**(10 marks)**



**This is a blank page.  
Question 5 begins on page 18.**

5 The results of Sandham Engineering Services (Pty) Ltd for the year ended 30 June 2019 are as follows:

|   | Notes | P                |
|---|-------|------------------|
| <b>Income</b>                           |       |                  |
| Gross profit (fully taxable)            |       | 5,886,218        |
| Interest received                       |       | 26,208           |
| Profit on sale of shares                | 1     | 32,972           |
| Damages compensation                    | 2     | 273,882          |
|   |       | <u>6,219,280</u> |
| <b>Expenditure</b>                      |       |                  |
| Administrative expenses (all allowable) |       | 3,742,665        |
| Depreciation                            |       | 462,896          |
| Loss on sale of equipment               | 3     | 72,744           |
| Fair value adjustment                   |       | 250,000          |
| Provisions                              | 4     | 224,805          |
|   |       | <u>4,753,110</u> |
| Profit before tax                       |       | <u>1,466,170</u> |

**Notes:**

1. The profit on sale of shares in BLM (Pty) Ltd is calculated as:

|                        | P              |
|------------------------|----------------|
| Cost                   | 567,028        |
| Fair value adjustments | (200,000)      |
|                        | <u>367,028</u> |
| Sale price             | 400,000        |
| Profit on sale         | <u>32,972</u>  |

2. The company claimed damages against a competitor for unfair trade practices.

3. Loss on sale of equipment is calculated as:

|              | P               |
|--------------|-----------------|
| Cost         | 680,637         |
| Depreciation | (372,893)       |
|              | <u>307,744</u>  |
| Sale price   | 235,000         |
| Loss on sale | <u>(72,744)</u> |

As at 30 June 2018, capital allowances amounting to P482,568 had been claimed on the equipment sold.

4. Provisions are made up as follows:

|  | P              |
|--|----------------|
| Specific allowance for receivables     | 46,822         |
| Provision for future legal fees        | 50,000         |
| Provision for future maintenance costs | 127,983        |
|  | <u>224,805</u> |

5. The current year claim for capital allowances amounts to P502,896.

6. The company has the following tax credits:

|   | P       |
|---|---------|
| Withholding tax suffered on interest received | 2,621   |
| Self-assessment tax (SAT) paid:               |         |
| 30 September 2018                             | 100,000 |
| 31 December 2018                              | 80,000  |
| 31 March 2019                                 | 90,000  |
| 30 June 2019                                  | 100,000 |

**Required:**

**In respect of Sandham Engineering Services (Pty) Ltd for the year ended 30 June 2019:**

**(a) Calculate the taxable income starting with the profit before tax figure of P1,466,170 and indicating by the use of a zero (0) any items of income or expenditure referred to in the question which do not require adjustment.**

Note: Your answer should clearly indicate how any tax losses are to be dealt with. (8 marks)

**(b) Calculate the tax payable or refundable.** (2 marks)

**(c) Explain the essential features of the self-assessment tax (SAT) system.** (4 marks)

**(d) State the date by which the income tax return should have been submitted.** (1 mark)

**(15 marks)**

- 6 Cecilia Mpetsane is employed by Masunga Pharmaceuticals (Pty) Ltd. In addition, she earns income from other sources. Cecilia's earnings for the tax year ended 30 June 2019 are:

|   | P       |
|---|---------|
| Gross salary                                    | 560,000 |
| Gross interest received from a building society | 24,740  |
| Gross interest received from an individual      | 84,330  |
| Gross dividends received                        | 15,560  |
| Gross royalties received                        | 36,000  |
|   | 720,630 |

In addition, Cecilia received the following employment benefits:

- (i) Company car costing P275,000. Cecilia must pay the petrol.
- (ii) Employer contribution to company pension costing P35,000 per annum.
- (iii) Utilities costing P22,500 per annum.
- (iv) Free airfare to Europe costing P10,000.
- (v) Company housing costing P60,000. The rateable value is P320,000. Cecilia lived in the house for five months of the year.

You are provided with the following additional information:

1. Tax has been deducted from Cecilia's earnings:

|   | Tax deducted<br>P |
|---|-------------------|
| Gross salary                                    | 147,050           |
| Gross interest received from a building society | 2,474             |
| Gross interest received from an individual      | 8,433             |
| Gross dividends received                        | 1,167             |

2. During the year, Cecilia purchased a truck costing P245,000 which she hired out to third parties. The costs of hiring the truck were:

|                    | P      |
|--------------------|--------|
| Driver's wages     | 56,352 |
| Running costs      | 75,922 |
| Insurance          | 5,736  |
| Building of garage | 26,258 |

Hire income, before deduction of expenses, amounted to P237,308.

3. Cecilia inherited a patent from her late father, valued at P500,000 and which generates royalty income.

**Required:**

**In respect of Cecilia Mpetsane for the year ended 30 June 2019:**

- (a) Calculate the chargeable income from business.

Note: You should indicate by the use of zero (0) any expenses which are not allowable. (4 marks)

- (b) Calculate the taxable income from all sources.

Note: You should indicate by the use of zero (0) any sources of income which are not taxable. (8 marks)

- (c) Calculate the tax payable or refundable, clearly showing the treatment of all tax withheld at source from the various sources of income. (3 marks)

**(15 marks)**

**End of Question Paper**