Answers

1 Benjamin Mmolowa

(a) Computation of farming loss

	P	P
Sales of cattle		1,270,000
Drought relief		20,000
Private consumption		24,000
Closing stock – 850 head x P140		119,000
		1,433,000
Cattle purchases	972,000	
Farming capital expenses	164,000	
Vehicle expenses	58,000	
Sundry farming expenses	50,000	
Balancing allowance (working 2)	7,000	
Capital allowances (working 1)	72,000	
Opening stock – 1,050 head x P140	147,000	(1,470,000)
Loss from farming		(37,000)

Working 1 – Capital allowances

	Furniture P	Plant P	Vehicles P	Total P
Cost				
Brought forward	40,000	75,000	228,000	343,000
Additions	–	25,000	82,000	107,000
Disposals	–	–	(98,000)	(98,000)
Carried forward	40,000	100,000	212,000	352,000
Allowances				
Brought forward	18,000	73,000	156,000	247,000
Current year allowances	4,000	15,000	53,000	72,000
Disposals	–	–	(63,000)	(63,000)
Carried forward	22,000	88,000	146,000	256,000
Written down value at 30 June 2007	18,000	12,000	66,000	96,000

Working 2 – Balancing allowance

	P
Cost	98,000
Allowances	(63,000)
Written down value	35,000
Sales price	28,000
Balancing allowance	(7,000)

(b) Computation of taxable income

	P
Pension	163,000
Bank interest (28,000 – 6000)	22,000
	185,000
Less: farming loss	(37,000)
Taxable income	148,000

Farming loss carried forward:	P
Loss brought forward	(110,000)
Current year loss	(37,000)
Loss utilised	37,000
Loss carried forward	(110,000)

(c) Computation of tax payable

	P	P
First P120,000		10,875
Next P28,000 at 25%		7,000
		17,875
Less: PAYE deducted from pension	15,000	
Tax witheld from interest	2,000	(17,000)
Tax due		875

(d) Date tax payable

Payment of tax due by an individual must be made within 30 days of the issue of the tax assessment.

2 Moshupa Engineering (Proprietary) Ltd

(a) Calculation of the chargeable disposal gain

	P	P
Original cost May 2003	700,000	
Indexation 700,000 x (941·9 – 705·8)/705·8	234,160	934,160
Addition October 2004	300,000	
Indexation 300,000 x (941·9 – 770·7)/770·7	66,641	366,641
Addition January 2005	200,000	
Indexation 200,000 x (941·9 – 779·2)/779·2	41,761	241,761
Tax cost		1,542,562
Sale proceeds		3,000,000
Gross disposal gain		1,457,438

(b) Calculation of the balancing charge

	P	P
Plant and machinery at cost	850,000	
Less: capital allowances claimed	(550,000)	
	300,000	
Sales proceeds	800,000	500,000
Factory building – initial allowance	300,000	
Factory building – annual allowance	50,000	350,000
Balancing charge		850,000

Note: The balancing charge in respect of a property that is being subjected to capital gains tax is limited to the allowances claimed.

(c) Calculation of capital allowances

	P	P
Factory building		
Cost	3,200,000	
Less: amount rolled over	(1,457,438)	
Net tax cost	1,742,562	
Initial allowance at 25%		435,641
Annual allowance 1,742,562 – 435,641 x $2\frac{1}{2}$%		32,673
Plant and machinery – P900,000 x 15%		135,000
Total capital allowances		603,314

(d) Calculation of taxable income and the net tax payable

	Note	P	P
Net profit per accounts			3,850,000
Add: Depreciation		750,000	
Contribution to an unapproved pension fund	1	100,000	
Purchase of contract	2	250,000	
Write-off of goodwill	3	500,000	
Balancing charge		850,000	2,450,000
Less: Capital allowances		603,314	
Profit on disposal of assets		2,500,000	(3,103,314)
Taxable income			3,196,686

Notes:
1. Only contributions to an approved pension fund can be deducted.
2. The purchase of a contract is of a capital nature and therefore not deductible.
3. Goodwill is not deductible.

	P	P
Ordinary tax at 5%		159,834
ACT at 10%	319,669	
Less: withholding tax paid	(170,000)	149,669
		309,503
Less: SAT paid		(250,000)
Net tax payable		59,503

	P	P
Working 1		
Dividend 1	2,300,000	
15% withholding tax thereon	345,000	
Less: ACT brought forward	(250,000)	95,000
Dividend 2	500,000	
15% withholding tax thereon	75,000	
Less: ACT brought forward	0	75,000
Withholding tax paid		170,000

Notes:
– In respect of the second dividend, there is no ACT available because it was fully utilised against the first dividend.
– The current year ACT cannot be used until the next tax year.

(e) VAT implications of the sale of the building

A sale of immoveable property is a supply for tax purposes and VAT should be charged.

However, in terms of paragraph 2(p) of the Second Schedule to the VAT Act, the supply of a going concern may be made at the zero rate. A fixed property transfer in a 'going concern' context will qualify for the zero rate only if the property has continuing income earning capacity that relates to taxable supplies at the time of the transfer. Accordingly, where a building which is rented out is sold as a going concern, at least 50% (by value of the rental income) of the tenants must remain as tenants after the transfer.

As at least 50% of the tenants will remain after the sale of the property in this case the transaction can be zero-rated.

3 Morula Enterprises (Proprietary) Ltd

(a) Calculation of net disposal gain

		P	P	Net gain P
1.	Sale of industrial property			
	Sale price		4,850,000	
	Cost – land February 1988	100,000		
	– indexation 100,000 x (931·0–158·7)/158·7	486,641	(586,641)	
	Cost – buildings May 1994	480,000		
	– indexation 480,000 x (931·0–337·3)/337·3	844,874	(1,324,874)	
	Cost – extensions November 2001	370,000		
	– indexation 370,000 x (931·0–610·2)/610·2	194,520	(564,520)	2,373,965
2.	Sale of shares in Furniture Stores (Pty) Ltd			
	Sale price		250,000	
	Cost		(400,000)	(150,000)
3.	Sale of shares in Shamrock Holdings (Pty) Ltd			
	Sale price		750,000	
	Cost (2,100,000 x 300/1500)		(420,000)	330,000
				2,553,965
	Less: 25% moveable property allowance (330,000–150,000) x 25%			(45,000)
	Chargeable disposal gain			2,508,965

(b) Rollover relief

Rollover relief can be claimed in respect of gains made on the disposal of immoveable property provided that a new property is purchased within one year of the disposal of the first property. However, the new property must be used in the business of the taxpayer. In this case the property that is purchased is residential and will not be used for business purposes, so rollover relief cannot apply. Rollover relief does not apply to shares.

(c) Calculation of taxable income

	P
Chargeable income	3,600,000
Recoupment of capital allowances	200,000
Chargeable disposal gain	2,508,965
	6,308,965
Less: capital loss brought forward	(52,314)
Taxable income	6,256,651

4 Waterwell Enterprises (Proprietary) Ltd

(a) Different types of output supplies

(i) Standard supplies are those supplies that are taxable at the standard rate. Most goods and services will fall into this group.

(ii) Zero-rated supplies are supplies that are taxable at the zero rate. This mostly applies to the export of goods or services. Related inputs can still be claimed.

(iii) Exempt supplies are not taxable and are distinguished from zero-rated supplies in that related inputs cannot be claimed. Exempt supplies are financial services, residential rents, educational services and state hospitals.

(b) VAT return for the tax period ended 28 February 2007

	P	P Tax
Outputs		
Sales in Botswana	2,436,022	243,602
Sales exported from Botswana	0	0
Interest received	0	0
Discount received	33,759	3,376
	2,469,781	246,978
Inputs		
Purchases of materials	1,783,286	178,329
Purchase of a truck	281,011	28,101
Extensions to existing factory building	203,892	20,389
Factory electricity	37,561	3,756
Entertainment	0	0
Residential rent	0	0
	2,305,750	230,575
Net taxable supplies/VAT payable	164,031	16,403

Notes
1. Exports are zero-rated
2. Interest is an exempt supply
3. Input tax on capital expenditure is deductible
4. Entertainment is a prohibited deduction
5. Residential accommodation is an exempt supply

5 Julius Tidimane

(a) Losses at 30 June 2006 and 30 June 2007

	Note	Employment income P	Rental income P	Farming income P	Business income P	Capital gains P
At 1 July 2005		–	–	(242,893)	(37,862)	–
Losses 30 June 2006	1	–	(4,165)	–	–	(121,783)
Income 30 June 2006	2	–	–	72,441	20,068	–
At 30 June 2006		0	(4,165)	(170,452)	(17,794)	(121,783)
Losses 30 June 2007		–	–	(124,638)	(15,812)	–
Income 30 June 2007		293,200	12,969	–	–	86,778
Set-off of farming loss	3	(124,638)	–	124,638	–	–
Capital loss falls away	4	–	–	–	–	35,005
At 30 June 2007		168,562	8,804	(170,452)	(33,606)	0

	P
Losses carried forward at 30 June 2006:	
Rental loss	4,165
Farming loss	170,452
Business loss	17,794
Capital loss	121,783

	P
Losses carried forward at 30 June 2007:	
Farming loss	170,452
Business loss	33,606

Notes
1. A rental loss is ring fenced and cannot be set-off against other income. It can only be set-off against future rental income.
2. A farming loss brought forward cannot be set-off against current year income. It can only be set-off against future farming income.
3. The current year farming loss can be set-off against other current year income.
4. A capital loss can only be carried forward for one year and falls away if not utilised during that period.

(b) Calculation of taxable income 30 June 2007

		P
Employment income		293,200
Rental income		12,969
Capital gain		86,778
		392,947
Less: Farming loss current year	124,638	
Rental loss brought forward	4,165	
Capital loss brought forward (limited)	86,778	(215,581)
Taxable income		177,366

Notes:
1. The total farming loss for 2007 can be deducted because it is less than 50% of the current year's chargeable income.
2. Dividends do not form part of chargeable income as they are taxed by final witholding.

(c) Time limit of losses

Trading and rental losses can be carried forward for a period of five years calculated from the year in which the loss was incurred. If the loss is not utilised in that period it is forfeited.

			Marks
1	(a)	Drought relief	2
		Private consumption	1
		Sale of cattle	0·5
		Purchase of cattle	0·5
		Closing stock	1
		Farming capital expenses	1
		Sundry farming expenses	0·5
		Motor vehicle expenses	0·5
		Balancing allowance	1·5
		Capital allowances	4
		Opening stock	1
		Drawings not deductible	0·5
			14
	(b)	Pension	1
		Bank interest	2
		Farming loss	2
		Farming loss carried forward	1
			6
	(c)	Tax payable	1
		PAYE credit	1
		Interest witholding tax credit	1
			3
	(d)	Date payable	2
		Total	**25**

			Marks
2	(a)	Original cost	1·5
		Addition 2004	1·5
		Addition 2005	1·5
		Gross gain	0·5
			5
	(b)	Plant and machinery	1
		Factory buildings	2
			3
	(c)	Rollover	2
		Initial building allowance	1
		Annual building allowance	1
		Plant and machinery	1
			5
	(d)	Withholding tax paid	4
		Depreciation	0·5
		Contribution to unapproved pension fund	1
		Purchase of contract	1
		Goodwill write off	1
		Balancing charge	0·5
		Capital allowances	0·5
		Profit on disposal of assets	0·5
		Ordinary tax	1
		ACT	1
		Set off of withholding tax	1
		SAT paid	1
			13
	(e)	Supply for VAT	1
		Going concern zero rate	1
		Sale of a going concern, with reasons	2
			4
		Total	**30**
3	(a)	Land	1·5
		Buildings	1·5
		Extensions	1·5
		Furniture Stores (loss)	1
		Shamrock Holdings	1·5
		Moveable property allowance	1
			8
	(b)	New property within one year	1
		Used in the same business	1
		Residential not business	1
		No relief on shares purchased	1
			4
	(c)	Chargeable income	0·5
		Recoupment of capital allowances	1
		Chargeable gain	0·5
		Capital loss brought forward deducted	1
			3
		Total	**15**

			Marks
4	**(a)**	Standard supplies	2
		Zero-rated supplies	2
		Exempt supplies	2
			6
	(b)	Sales in Botswana	0·5
		Sales exported from Botswana	1
		Interest received	1
		Discount received	0·5
		Purchases of materials	0·5
		Purchase of a truck	1
		Extensions to existing factory building	1
		Factory electricity	0·5
		Entertainment	1
		Residential rent	1
		Salaries and wages	0·5
		Net VAT payable	0·5
			9
		Total	**15**

				Marks
5	**(a)**	Losses carried forward June 2006	– photographic business	1
			– rental	0·5
			– farming	1
			– capital	0·5
		Losses carried forward June 2007	– photographic business	1
			– farming	0·5
			– rental (zero)	0·5
		Set-off of farming loss		2
		Capital loss falls away		2
				9
	(b)	Employment income		0·5
		Rental income		0·5
		Capital gain		0·5
		Farming loss current year		1
		Rental loss brought forward		1
		Capital loss brought forward		1
		Dividend income excluded		0·5
				5
	(c)	Five years		1
		Total		**15**