

Fundamentals Level – Skills Module

Taxation (Botswana)

Monday 3 December 2007

Time allowed

Reading and planning: 15 minutes

Writing: 3 hours

ALL FIVE questions are compulsory and MUST be attempted.
Tax rates and allowances are on pages 2–4.

Do NOT open this paper until instructed by the supervisor.

During reading and planning time only the question paper may be annotated. You must NOT write in your answer booklet until instructed by the supervisor.

This question paper must not be removed from the examination hall.

The Association of Chartered Certified Accountants

The Botswana Institute of Accountants



Paper F6 (BWA)

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.

TAX RATES AND ALLOWANCES:

The following rates of tax and allowances are to be used when answering the questions

**Rates of tax
2006/2007 tax year**

Resident companies	On taxable income
Standard rate	15%
Additional company tax	10%
Manufacturing company rate	5%
Additional company tax	10%

Resident individuals

P 0 – P 30,000	P 0 +	0%
P 30,000 – P 60,000	P 0 +	5%
P 60,000 – P 90,000	P 1,500 +	12.5%
P 90,000 – P 120,000	P 5,250 +	18.75%
P 120,000 +	P 10,875 +	25%

Non-resident individuals, trusts and estates

P 0 – P 60,000	P 0 +	5%
P 60,000 – P 90,000	P 3,000 +	12.5%
P 90,000 – P 120,000	P 6,750 +	18.75%
P 120,000 +	P 12,375 +	25%

Capital gains – individuals

P 0 – P 12,500	P 0 +	0%
P 12,500 – P 43,750	P 0 +	5%
P 43,750 – P 62,500	P 1,562 +	10%
P 62,500 – P 81,250	P 3,437 +	15%
P 81,250 – P 100,000	P 6,250 +	20%
P 100,000 +	P 10,000 +	25%

Capital gains – companies

Net aggregate gains are taxable at the company rates of tax.

Basis of valuation of benefits

Individuals' vehicle benefit

Vehicle cost	Employee's benefit	Fuel cost adjustment
P 1 – P 50,000	P 2,500	P 1,000
P 50,001 – P 100,000	P 5,000	P 2,000
P 100,001 – P 150,000	P 7,500	P 3,000
P 150,001 – P 200,000	P 10,000	P 4,000

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 be taxable in the hands of the employee.

Individuals' 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 the taxable employment income before housing benefit.

Individuals' furniture benefit

10% of the furniture cost in excess of P15,000 prorated 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%

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			
January	683.2	721.3	779.2	877.4			
February	689.0	728.6	781.7	884.0			
March	692.2	735.8	783.8	891.5			
April	701.4	743.6	789.4	901.4			
May	705.8	754.0	801.4	909.6			
June	715.0	721.3	813.2	914.9			
July	714.5	758.9	821.2	920.2			
August	698.0	761.3	834.8	925.6			
September	707.0	765.7	842.3	931.0			
October	715.9	770.7	857.1	936.4			
November	717.9	772.4	859.7	941.9			
December	718.9	774.9	863.1				

ALL FIVE questions are compulsory and MUST be attempted

1 Benjamin Mmolowa is a full time cattle farmer having retired from the civil service some years ago.

Farming

His farming results, before adjusting for stock, for the year ended 30 June 2007 are:

	P	P
Cattle sales		1,270,000
Cattle purchases	972,000	
Farming capital expenditure	164,000	
Vehicle expenses	58,000	
Drawings	72,000	
Purchase of a tractor	82,000	
Purchase of a generator	25,000	
Sundry farming expenses	50,000	(1,423,000)
Net loss		(153,000)

Other information relating to farming:

- The opening stock of cattle was 1,050 head and the closing stock was 850 head. The standard tax value for cattle is P140 per head.
- Benjamin received P20,000 from the government in respect of drought relief.
- The farming loss brought forward was P110,000.
- Asset costs and capital allowances brought forward are:

	Furniture P	Plant P	Vehicles P
Cost	40,000	75,000	228,000
Capital allowances	(18,000)	(73,000)	(156,000)

- During the year a vehicle costing P98,000 was sold for P28,000. Capital allowances on this vehicle amounted to P63,000.
- During the year, Benjamin used 25 head of cattle costing P24,000 (in total) for his own consumption.

Other income

- Benjamin received a government pension amounting to P163,000, from which PAYE of P15,000 had been deducted.
- Benjamin received bank interest of P28,000, from which tax of P2,000 had been withheld.

Required:

In respect of Benjamin Mmolowa for the tax year ended 30 June 2007:

- Calculate his chargeable income/loss from farming. (14 marks)
- Calculate his taxable income, clearly indicating any losses to be carried forward. (6 marks)
- Calculate his tax payable. (3 marks)
- State the date by which the tax in (c) above, if any, should be paid. (2 marks)

(25 marks)

- 2 Moshupa Engineering (Proprietary) Ltd is a company engaged in the manufacture of motor parts which has been recognised as a manufacturer for tax purposes. The company's results for the financial year ended 30 June 2007 are as follows:

	Note	P	P
Sales			16,000,000
Cost of sales			(12,000,000)
Gross profit			4,000,000
Profit on the sale of assets			2,500,000
Rents received			100,000
			<u>6,600,000</u>
Expenditure			
Administrative costs		1,000,000	
Depreciation		750,000	
Repairs and maintenance		150,000	
Pension fund contributions	1	100,000	
Purchase of contract	2	250,000	
Goodwill written off		500,000	(2,750,000)
Net profit			<u>3,850,000</u>

Notes:

- The pension fund contributions were made to an unapproved pension fund.
- The payment of P250,000 was made to the liquidator of an insolvent company to take-over the balance of a supply contract for motor parts.

Additional information:

- The profit on the sale of the assets was calculated as follows:

	Factory building	Plant and machinery	Total
	P	P	P
Cost	1,200,000	850,000	2,050,000
Depreciation	(150,000)	(600,000)	(750,000)
Net book value	1,050,000	250,000	1,300,000
Sale proceeds	3,000,000	800,000	3,800,000
Profit on sale	1,950,000	550,000	2,500,000

- Factory buildings

The factory building disposed of was no longer suitable for the purposes of Moshupa Engineering. It was sold in November 2006.

The capital allowances claimed on this building consisted of an initial allowance of P300,000 and annual allowances of P50,000.

The cost of the property was made up as follows:

	P	
Original cost	May 2003	700,000
Addition	October 2004	300,000
Addition	January 2005	200,000
		<u>1,200,000</u>

In December 2006 the company purchased, and occupied, another factory building which cost P3,200,000.

3. Plant and machinery

Capital allowances claimed in respect of the plant and machinery that was sold amounted to P550,000. The plant was not replaced. The cost of the remaining plant was P900,000.

4. Dividends

In February 2007 the company paid a dividend of P2,300,000; the ACT brought forward at that date was P250,000. In June 2007 a further dividend of P500,000 was paid.

5. Self assessment tax (SAT)

The following SAT payments had been made during the year:

	P
30 September 2006	100,000
31 December 2006	50,000
31 March 2007	50,000
30 June 2007	50,000
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	250,000
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Required:

In respect of Moshupa Engineering Ltd (Proprietary) Ltd for the 2007 tax year:

- (a) Calculate the gross disposal gain arising on the sale of the factory building. (5 marks)
- (b) Calculate the balancing charge arising on the sale of the factory building and the plant and machinery. (3 marks)
- (c) Calculate the capital allowances available, assuming that the maximum amount of rollover relief will be claimed. (5 marks)
- (d) Calculate the taxable income and the net tax payable. (13 marks)
- (e) Comment on the value added tax (VAT) implications of the sale of the factory building, if prior to its sale a rental to a third party had been secured. (4 marks)

(30 marks)

- 3 The following capital transactions took place in Morula Enterprises (Proprietary) Ltd during the year ended 30 June 2007.

Immoveable Properties

1. In September 2006 the company sold an industrial property for P4,850,000. The original cost of the property was made up as follows:

	P
February 1988 – cost of land	100,000
May 1994 – cost of buildings	480,000
November 2001 – cost of extensions	370,000
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	950,000
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2. In May 2007 the company purchased a residential property for P1,450,000, which will be occupied by the company's major shareholder.

Shares

1. In July 2006 the company sold its entire shareholding in Furniture Stores (Pty) Ltd for P250,000. The original cost of these shares in January 1998 was P400,000, but due to the fact that Furniture Stores (Pty) Ltd has been making losses for some years it was decided to divest of the entire investment.
2. The company purchased shares in Central Properties (Pty) Ltd for P780,000 in December 2006.
3. In March 2007 the company sold 300 of its holding of 1,500 shares in Shamrock Holdings (Pty) Ltd for P750,000. The cost of the holding was made up as follows:

	P
June 1999 – 200 shares	220,000
October 1999 – 600 shares	740,000
February 2004 – 700 shares	1,140,000

Other information

1. The chargeable income of the company for the year ended 30 June 2007, before taking account of the above transactions, was P3,600,000.
2. Capital allowances claimed on the industrial property at the time of sale amounted to P200,000.
3. The company has a capital loss brought forward from the 2006 tax year amounting to P52,314.

Required:

- (a) Calculate the net disposal gains or losses arising on the sale by Morula Enterprises (Proprietary) Ltd of the immoveable property and shares in the year ended 30 June 2007. (8 marks)
- (b) State, giving reasons, whether or not Morula Enterprises (Proprietary) Ltd will be able to claim rollover relief in respect of the gain on the industrial property. (4 marks)
- (c) Calculate the taxable income of Morula Enterprises (Proprietary) Ltd for the tax year ended 30 June 2007. (3 marks)

(15 marks)

4 (a) For the purposes of value added tax (VAT), identify and briefly explain the three different types of output supplies. (6 marks)

(b) The following information relates to Waterwell Enterprises (Proprietary) Limited in respect of its trading for the value added tax (VAT) period ended 28 February 2007:

	P
Income	
Sales in Botswana	2,436,022
Sales exported from Botswana	288,604
Interest received	72,109
Discount received	33,759
Expenses	
Purchases of materials	1,783,286
Purchase of a truck	281,011
Extensions to an existing factory building	203,892
Factory electricity	37,561
Entertainment	17,042
Salaries and wages	462,811
Residential rent	27,435

All the above amounts are exclusive of VAT where applicable.

Required :

Prepare the VAT return for Waterwell Enterprises (Proprietary) Ltd for the period ended 28 February 2007.

(9 marks)

(15 marks)

- 5 Julius Tidimane is an employee of Bogoya Construction (Proprietary) Ltd. However, he also owns a cattle farm, a photographic business and rents out a property. At the beginning of the tax year, on 1 July 2005 his tax losses brought forward were:

	P
Farming	242,893
Photographic business	37,862

For the year ended 30 June 2006 Julius returned the following results for tax purposes:

	P
Employment income	280,000
Farming chargeable income	72,441
Photographic business chargeable income	20,068
Capital loss on sale of farming land	(121,783)
Rental loss	(4,165)

Details of Julius' employment income and business income for the year ended 30 June 2007 are:

	P
Employment income	293,200
Dividend income	6,872
Rental income	12,969
Farming loss	(124,638)
Photographic business loss	(15,812)
Capital gain on the sale of shares	86,778

Required:

- (a) Calculate the tax losses to be carried forward by Julius Tidimane at 30 June 2006 and 30 June 2007, respectively. (9 marks)
- (b) Calculate Julius Tidimane's taxable income for the tax year ended 30 June 2007. (5 marks)
- (c) State the length of time that trading and rental losses can be carried forward. (1 mark)

(15 marks)

End of Question Paper