

Fundamentals Level – Skills Module

Taxation (Botswana)

Monday 2 June 2008

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

ACCA



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 and 2007/2008 tax years

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 30,001 – P 60,000	P 0 +	5%
P 60,001 – P 90,000	P 1,500 +	12.5%
P 90,001 – P 120,000	P 5,250 +	18.75%
P 120,001 +	P 10,875 +	25%

Non-resident individuals, trusts and estates

P 0 – P 60,000	P 0 +	5%
P 60,001 – P 90,000	P 3,000 +	12.5%
P 90,001 – P 120,000	P 6,750 +	18.75%
P 120,001 +	P 12,375 +	25%

Capital gains – individuals

P 0 – P 12,500	P 0 +	0%
P 12,501 – P 43,750	P 0 +	5%
P 43,751 – P 62,500	P 1,562 +	10%
P 62,501 – P 81,250	P 3,437 +	15%
P 81,251 – P 100,000	P 6,250 +	20%
P 100,001 +	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 are not 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	2007		
January	683.2	721.3	779.2	877.4	942.9		
February	689.0	728.6	781.7	884.0	948.5		
March	692.2	735.8	783.8	891.5	949.5		
April	701.4	743.6	789.4	901.4	957.7		
May	705.8	754.0	801.4	909.6	968.1		
June	715.0	721.3	813.2	915.0			
July	714.5	758.9	821.2	918.6			
August	698.0	761.3	834.8	924.2			
September	707.0	765.7	842.3	930.8			
October	715.9	770.7	857.1	936.4			
November	717.9	772.4	859.7	935.5			
December	718.9	774.9	863.1	936.4			

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Question 1 begins on page 6.**

ALL FIVE questions are compulsory and MUST be attempted

1 (a) Joyce Pabalinga is the accountant at Bestfoods Ltd, a company listed on the Botswana Stock Exchange (BSE).

Employment package

Her employment package for the tax year ended 30 June 2008 was:

		P
Salary		288,000
Company contribution to pension fund		29,000
Company car including petrol	Cost	320,000
Company provided housing	Rateable value	476,000
Medical aid		18,000
Performance bonus		50,000
Company provided house furniture	Cost	25,000

Joyce's ITW 8 for the tax year ended 30 June 2008 reflected tax withheld of P85,600.

Partnership

Joyce is in business partnership with her sister Susan. The results of the partnership for the year ended 30 June 2008 were:

	P	P
Sales		1,750,000
Cost of sales		(1,150,000)
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		600,000
Depreciation	50,000	
Susan's salary	75,000	
Interest on Joyce's capital account	10,000	
Other allowable expenses	383,000	(518,000)
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Net profit		82,000
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The capital allowances are calculated at P32,000.
 There is a partnership loss brought forward of P50,000.
 The sisters share profits in the ratio 70:30 Susan:Joyce.

Other information

Joyce received gross bank interest of P32,000 from which P2,000 tax was deducted. She also made a profit of P13,000 on the sale of shares listed on the Botswana Stock Exchange.

Required:

In respect of Joyce Pabalinga:

- (i) Compute the partnership chargeable income or loss for the year ended 30 June 2008.** (6 marks)
- (ii) Calculate her taxable income for the tax year ended 30 June 2008.** (9 marks)
- (iii) Calculate the tax payable by or refundable to Joyce for the tax year ended 30 June 2008.** (2 marks)

- (b) David Kajane is a cattle farmer in the North Eastern District; his farming results for the year ended 30 June 2008 were as follows:

	P
Sales to the Botswana Meat Commission (BMC)	1,232,017
Purchases	865,083
Salaries and wages	214,681
Fencing	43,748
Vehicle expenses	67,611
Cattle feed	143,072
Construction of dam	58,869
Construction of farm buildings	70,000
Bank interest	32,674

Other information:

1. The opening stock of cattle was 438 head and the closing stock was 472 head.
2. David used 30 head of cattle for personal consumption.
3. David settled a debt with his next door neighbour by supplying him with 10 head of cattle.
4. Included in salaries and wages are drawings of P120,000 made by David on which no PAYE has been deducted.
5. David has a farming loss brought forward from the year to 30 June 2007 of P178,446.
6. David received sales commission amounting to P140,750 and has a withholding tax credit of P7,242.
7. David is a 50% partner in another business venture and his share of the partnership chargeable income is P67,032.
8. The standard value of one head of cattle is P430.

Required:

In respect of David Kajane:

- (i) **Compute the chargeable income or loss from his farming activities in the year ended 30 June 2008.** (8 marks)
- (ii) **Calculate his taxable income from all sources for the tax year ended 30 June 2008.** (3 marks)
- (iii) **Calculate the farming loss to be carried forward as at 30 June 2008.** (2 marks)

(30 marks)

2 Masedi Enterprises (Proprietary) Limited is a manufacturer of electronic equipment. The following information is relevant for the company's year ended 31 March 2008.

Operating profit

The operating profit is made up as follows:

	P
Sales – in Botswana	6,968,321
Sales – export	1,378,453
Fair value adjustment	273,689
Profit on the disposal of machinery	45,981
Profit on the sale of an investment	84,026
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	8,750,470
Cost of sales	4,272,619
Depreciation	710,361
Donations	4,610
Amortisation of patent	35,000
Salaries and wages	2,195,392
Other costs (all tax deductible)	456,723
Interest paid	162,973
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Net profit	(7,837,678)
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	912,792

Industrial building

During the year there were additions amounting to P685,000 to the existing factory building. The tax written down value of the building at 1 April 2007 was:

	P
Original cost	3,750,000
Capital allowances received	(1,148,437)
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Tax value	2,601,563

Other assets

New machinery was purchased at a cost of P340,000 to replace existing machinery that had been destroyed by fire in October 2007. The insurance recovery was P150,000. The details of the old machinery were:

	P
Original cost	262,500
Capital allowances received	(207,250)
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Tax value	55,250

Details of the company's furniture and vehicles at 1 April 2007 were:

	Furniture P	Vehicles P
Cost	83,672	210,985
Capital allowances received	(28,976)	(148,924)
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Tax value	54,696	62,061

A truck costing P80,000 was purchased in January 2008.

Losses

Tax losses brought forward at 1 April 2007 were:

	P
Trading loss	279,201
Capital loss	39,048

The capital loss arose in the previous year on the sale of some immovable property.

Sale of investment

100 shares in Landsberg (Pty) Ltd costing P128,500 were sold for P212,526 in February 2008.

Dividend

A dividend was paid during the year and withholding tax of P18,382 was deducted.

Payments to non-residents

During the year, the following payments were made to non-residents:

	P
Imports of raw materials	3,815,876
Interest on loan	162,973
Marketing fees	120,000
Engineering fees	72,683

Required:**In respect of Masedi Enterprises (Proprietary) Ltd:**

- (a) **Compute the claim for capital allowances clearly showing the asset costs, any rollover relief and the tax values carried forward.** (9 marks)
- (b) **Compute the taxable income for the year ended 31 March 2008.** (9 marks)
- (c) **Calculate the tax payable for the year ended 31 March 2008.**
Note: you should ignore the SAT requirements. (3 marks)
- (d) **Explain the withholding tax requirements in respect of the payments made to non-residents, including the due date of payment of any tax withheld.** (4 marks)

(25 marks)

- 3** Phuti (Proprietary) Ltd undertook the following capital sale transactions during the year ended 31 August 2007.
1. The company sold its shares in Kolobeng Ltd, a company listed on the Botswana Stock Exchange (BSE), for P500,000. The original cost of the shares was P200,000.
 2. The entire share capital and loan account in its subsidiary Gaborone Securities (Proprietary) Limited were sold. The shares had a cost of P1,450 and the loan account stood at P120,000. The total sales consideration amounted to P250,000 and was applied firstly to the loan account and the balance to the shares.
 3. 500 debentures in Tswana Diamonds (Proprietary) Ltd that had cost P1,000 each were sold for P1,400 each.
 4. 700 shares in Pennington Enterprises (Proprietary) Ltd were sold for P600,000. 1,500 shares had been purchased in May 1998 for P850,000.
 5. In a merger the company received one share valued at P1,000 each in Jupiter Metals (Proprietary) Ltd for every three shares it held in Tlokweng Foundries (Proprietary) Ltd. At the time of the merger, Phuti (Proprietary) Ltd owned 900 shares in Tlokweng Foundries (Proprietary) Ltd which had cost P80,000. No relief was sought.

Required:

In respect of Phuti (Proprietary) Ltd:

- (a) **Compute the chargeable disposal gains arising on the above disposals of shares and debentures (transactions 1 to 5).** (9 marks)
- (b) **State how the disposal gains calculated in (a) above will be taxed.** (1 mark)
- (c) **Identify and describe the relief that could have been claimed in respect of transaction 5 above, listing the conditions that must be met.** (5 marks)

(15 marks)

4 (a) **State the conditions that must be satisfied before an input tax credit can be claimed for the purposes of value added tax (VAT).** (4 marks)

(b) BG Retailers (Pty) Ltd have been the subject of a VAT enquiry into the input tax claimed for the VAT period ended 31 March 2008. The company's expenses for that month, inclusive of VAT where applicable, were:

	P
Purchases of goods	948,640
Commercial rentals	59,400
Salaries and wages	303,600
Interest paid	32,450
Contribution to pension fund	16,500
Electricity	87,230
Purchase of computers	139,700
Purchase of company car	206,250
Imported services	78,100
Petrol and diesel costs	35,200
Sales returns	11,550
Advertising	54,670
Bank charges	2,640

Required:

Compute the input tax that should have been claimed by BG Retailers (Pty) Ltd for the VAT period ended 31 March 2008, clearly indicating those items for which no credit is available, and why. (11 marks)

(15 marks)

5 The following information has been provided by Greenwood Enterprises (Proprietary) Ltd, a non-manufacturing company, for the year ended 30 April 2008:

- | | P |
|--------------------------------|-----------|
| 1. Taxable income from trading | 2,438,675 |
| Net disposal gain | 581,266 |
- The additional company tax (ACT) brought forward at 1 May 2007 amounted to P107,226.
 - On 15 November 2007 a gross dividend of P500,000 was declared.
 - On 8 April 2008 a second gross dividend of P750,000 was declared.
 - The company made the following self assessment tax (SAT) payments in respect of the 2008 tax year:

	P
31 July 2007	120,000
31 October 2007	160,000
31 January 2008	160,000
30 April 2008	120,000
	<hr/>
	560,000

- The company had tax of P27,823 withheld from interest received.

Required:

In respect of Greenwood Enterprises (Proprietary) Ltd:

- Calculate the withholding tax paid in respect of the dividends declared in November 2007 and April 2008, respectively.** (4 marks)
- Calculate the net tax payable for the year ended 30 April 2008.** (5 marks)
- State the latest date for:**
 - filing the 2008 tax return if penalties are to be avoided; and**
 - payment of the withholding tax due on the April 2008 dividend.** (2 marks)
- Explain whether or not any interest will be payable in relation to the SAT payments.**
Note: you are not required to calculate any interest due. (4 marks)

(15 marks)

End of Question Paper