



# **Botswana Institute of Chartered Accountants**

## **Business Planning: Taxation**

### **Examination Paper**

Date: 05 June 2018

Time: 14:00 pm -16.30 pm

Time allowed: 2 hour 30 minutes

#### **Instructions to Candidates**

This paper consists of **THREE** written test questions (100 marks).

1. Ensure your candidate details are on the front of your answer booklet.
2. Answer each question in black ball point pen only.
3. Answers to each written test question must begin on a new page and must be clearly numbered. Use both sides of the paper in your answer booklet.
4. The examiner will take account of the way in which answers are presented.
5. When the assessment is declared closed, you must stop writing immediately. If you continue to write (even completing your candidate details on a continuation booklet), it will be classed as misconduct.

**Assume that the Finance Act 2016/17 rates and allowances will continue to apply in future years unless you are specifically instructed otherwise.**

#### **IMPORTANT**

Question papers contain confidential information and must NOT be removed from the examination hall.

**DO NOT TURN OVER UNTIL YOU ARE INSTRUCTED TO BEGIN WORK**

You **MUST** enter your candidate number in this box

# Tax Tables

Use the following tax tables to answer your questions, where necessary.

## Rates of tax from 2017/2018 tax years

### Resident companies

	On taxable income
Standard rate	22%
Manufacturing company rate	15%

### Non-resident companies

Standard rate	30%
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### Resident individuals

P0 –	P36,000	Nil
P36,001 –	P72,000	Nil + 5% of excess over 36 000
P72,001 –	P108,000	P1,800 + 12.5% of excess over 72 000
P108,001 –	P144,000	P6,300 + 18.75% of excess over 108 000
Over	P144,000	P13,050 + 25% of excess over 144 000

### Non-resident individuals, trusts and estates

P0 –	P72,000	5% of every pula
P72,001 –	P108,000	P3,600 + 12.5% of excess over 72 000
P108,001 –	P144,000	P8,100 + 18.75% of excess over 108 000
Over	P144,000	P14,850 + 25% of excess over 144 000

### Capital gains – individuals

P0 –	P18,000	Nil
P18,001 –	P72,000	P0 + 5% of excess over 18 000
P72,001 –	P108,000	P2,700 + 12.5% of excess over 72 000
P108,001 –	P144,000	P7,200 + 18.75% of excess over 108 000
Over	P144,000	P13,950 + 25% of excess over 120 000

### Capital gains – companies

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

**Tax on Foreign dividend** **15%**

## **Basis of valuation of benefits**

### **Individuals' vehicle benefit**

<b>Vehicle cost</b>	<b>Employee benefit</b>	<b>Fuel cost adjustment</b>
P1 - P50 000	P2 500	P1 000
P50 001 - P100 000	P5 000	P2 000
P100 001 - P150 000	P7 500	P3 000
P150 000 - P200 000	P10 000	P4 000

Benefit on the excess of P200 000 is 15% thereof with a maximum fuel cost adjustment of P5 000.

### **Individual's housing benefit:**

#### **If rated:**

10% of the property's rateable value prorated by occupation and reduced by any contribution made by the employee.

#### **If not rated:**

Gross floor area x P250 per sq metre x 8% for a standard building

The benefit is prorated by period of use and reduced by any contribution made by the employee.

### **Individual's furniture benefit**

10% of furniture cost in excess of P15, 000 pro - rated by usage.

## **CAPITAL TRANSFER TAX RATES**

	<i>Aggregate Taxable Value</i>	<i>Rate of Tax per cent</i>
1. Person (other company)	First P100 000	2 per cent
	Next P200 000	3 per cent
	Next P200 000	4 per cent
	Balance	5 per cent
2. Resident company		12.5 per cent
3. Non-resident company		12.5 per cent

## Capital value of an annuity

$$\text{Capital value} = A \times [1 - (1/(1 + r)^N)]$$

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r

Where - A is the annuity payable

r = rate of return

N = number of years over which the annuity is payable.

## NATIONAL COST OF LIVING INDEX – JULY 1982 to JUNE 2017

YEAR	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1982	-	-	-	-	-	-	100.0	101.2	101.2	102.1	103.3	103.8
1983	104.1	104.8	105.5	106.6	108.3	108.4	109.0	110.2	110.2	110.7	111.7	112.3
1984	113.5	114.5	115.2	116.0	116.9	118.3	119.1	120.1	119.8	120.7	119.7	119.5
1985	119.9	120.7	122.0	124.1	126.6	128.6	130.1	129.8	131.1	131.5	131.8	132.0
1986	133.9	135.5	135.5	136.8	138.0	140.9	141.2	141.8	142.7	143.4	144.7	146.3
1987	147.4	148.5	148.9	151.9	153.6	154.1	154.9	156.6	156.7	157.1	157.5	158.1
1988	157.8	158.7	160.8	163.4	164.1	165.5	168.0	169.3	171.0	172.6	173.9	174.4
1989	176.9	178.0	180.1	182.7	184.1	186.2	187.3	188.7	190.2	191.1	191.5	194.2
1990	196.6	199.0	200.5	204.1	205.1	206.0	207.2	209.2	210.7	212.6	216.0	217.6
1991	220.5	221.4	223.5	225.8	227.3	229.0	232.0	234.2	237.2	239.5	242.5	244.9
1992	248.3	251.7	256.3	262.1	265.5	269.4	272.3	275.0	277.6	280.1	283.0	285.4
1993	291.0	293.1	295.8	301.1	303.1	306.0	311.6	313.5	315.0	317.6	320.1	321.5
1994	324.2	326.8	328.5	332.7	337.3	340.2	343.1	345.3	347.0	348.4	351.3	353.0
1995	357.9	361.0	364.9	368.6	370.5	374.9	377.8	381.6	384.3	386.0	387.9	391.3
1996	395.5	398.1	402.2	405.6	408.8	413.9	417.0	419.5	421.6	423.8	426.0	428.7
1997	431.6	435.5	439.7	443.6	448.7	451.2	454.1	454.9	457.5	459.7	460.9	461.9
1998	464.8	466.0	469.9	476.0	477.9	478.9	481.0	484.0	484.4	486.9	489.5	491.2
1999	495.1	499.7	504.3	507.5	509.2	513.3	514.3	517.7	521.1	523.5	524.0	525.2
2000	530.8	536.3	538.8	545.5	548.9	552.0	568.6	569.8	571.4	576	577.5	578.7
2001	581.4	582.1	587.2	598.9	596.9	598.6	601.3	603.0	605.4	608.5	610.2	611.0
2002	613.1	613.9	622.1	629.6	631.3	634.0	654.4	662.4	666.7	670.8	677.6	679.3
2003	683.2	689.0	692.2	701.4	705.8	715.0	714.5	698.0	707.0	715.9	717.9	718.9
2004	721.3	728.6	735.8	743.6	754.0	721.3	758.9	761.3	765.7	770.7	772.4	774.9
2005	779.2	781.7	783.8	789.4	801.5	813.2	821.2	834.8	842.3	857.1	859.7	863.1
2006	877.4	884.0	891.5	901.4	909.6	915.0	918.6	924.2	930.8	936.4	935.4	936.4
2007	942.9	948.5	949.5	957.7	968.1	974.5	988.5	991.2	994.1	1004.3	1007.2	1012.8
2008	1022.2	1034.4	1043.1	1064.7	1085.0	1115.1	1136.7	1140.6	1133.8	1135.5	1159.0	1151.2
2009	1152.7	1155.1	1165.0	1172.8	1176.0	1193.4	1204.8	1209.7	1213	1213.3	1217.2	1218.4
2010	1223.2	1225.4	1234.6	1256.2	1268.6	1285.3	1289.7	1290.6	1297.9	1300.6	1304.2	1309.1
2011	1320.0	1330.2	1338.9	1359.0	1373.6	1386.4	1380.6	1403.4	1409.0	1415.0	1424.0	1428.8
2012	1436.1	1440.0	1446.5	1460.4	1480.0	1487.3	1492.1	1496.7	1508.9	1515.4	1530.2	1534.8
2013	1544.3	1546.9	1555.4	1565.6	1570.2	1573.8	1576.7	1580.4	1584.3	1587.9	1593.5	1598.1
2014	1611.1	1618.6	1624.2	1637.2	1641.8	1646.5	1648.4	1653.0	1655.8	1662.4	1667.0	1663.3
2015	1670.7	1664.2	1669.8	1687.5	1690.3	1696.8	1698.7	1701.5	1704.2	1708.9	1709.8	1708.9
2016	1715.4	1714.5	1721.0	1735.9	1737.8	1741.5	1744.3	1747.1	1751.7	1755.2	1758.7	1760.5
2017	1769.2	1772.7	1781.5	1795.5	1799.0	1802.5	1804.3	1806.0	1807.8	1807.8	1811.3	1816.5
2018	1823.5	1828.8										

## **Question 1**

You are a tax adviser, working for a firm of BICA Chartered Accountants. Your work involves providing explanations and advise to various clients concerning the tax implications of some of the transactions they undertake or are planning to undertake.

Your manager, Kopano Motsisi, has left five memos on your desk concerning tax issues for a number of clients.

**Exhibit 1** concerns a high corporate flyer, Keitheile, who has recently been poached by an investment bank in Gaborone.

**Exhibit 2** concerns transactions between Masunga Ltd, a resident company of Botswana and it's subsidiary in a foreign country whose company tax rate is 15%.

**Exhibit 3** relates to Gasenone a farmer who has other sources of income.

**Exhibit 4** refers to Lesego, a Motswana, has various investments in South Africa.

**Exhibit 5** concerns the ethical implications of providing tax advice to Mokaila and Mokobi.

### **Requirements**

Respond to the tax issues raised in the memos from Kopano Motsisi.

**Total: 40 marks**

**Exhibit 1****Memo from Kopano Motsisi****From:** Kopano Motsisi, Tax Manager**To:** A Tax Adviser**Subject:** Salary restructure – Keitheile

Keitheile is 49 years old and intends to retire in 6 years' time. She was previously employed on a permanent and pensionable basis. She wants to continue to make the maximum contributions to her pension fund in the most tax efficient manner possible. Her employer gives its employees a choice between pension and gratuity.

Her new employer has offered her a job on a three year contract which is expected to be renewed for a further three years. They have offered Keitheile a total package of P840,000 which is inclusive of the employer's maximum eligible contribution to Keitheile's pension.

The projected annual cash outflows for Keitheile are as follows:

Medical aid contributions	P24,000
Subscriptions to professional body	P8,000
School fees	P60,000
Home expenses for subsistence	P120,000

Keitheile lives with her husband in their matrimonial house. The house is owned by her husband. The husband is a small farmer and has no other income. The rateable value of the house is P360,000 and the market rent per month is estimated at P15,000. Keitheile would be interested in renting the house from her husband through her new employer if it was tax beneficial.

Keitheile is seeking advice on how her employment income could be restructured with a quantification of the tax savings that will arise from the proposed restructuring.

**Exhibit 2****Memo from Kopano Motsisi****From:** Kopano Motsisi, Tax Manager**To:** A Tax Adviser**Subject:** Musunga Ltd – Transactions with foreign subsidiary

During the year ended 30 June 2018, Masunga Ltd purchased goods for P1,200,000 from its foreign subsidiary. The foreign subsidiary had charged a mark-up of 150%. The foreign subsidiary normally charges a mark-up of 40%. Masunga Ltd sold the goods at fair value for P900,000 in Botswana, realising a loss of P300,000. The directors of Masunga Ltd are concerned about whether BURS will allow the loss arising on the transactions with the foreign subsidiary.

Advise with illustrations how BURS is likely to treat the transactions between Masunga Ltd and the foreign subsidiary and compute the increase or decrease in the tax liability of Masunga Ltd.

**Exhibit 3****Memo from Kopano Motsisi****From:** Kopano Motsisi, Tax Manager**To:** A Tax Adviser**Subject:** Gasenone

Gasenone has various sources of income and is interested in how his tax liabilities could be mitigated. The income and losses for the 3 year period to 30 June 2018:

Year ended 30 June	2016	2017	2018
	P	P	P
Employment income	240,000	264,000	290,400
Farming income / (loss)	300,000	(380,000)	240,000
Trading income / (loss)	(450,000)	140,000	80,000
Rental income	80,000	80,000	80,000

Gasenone would like to maximise the use of loss provisions in order to minimise her tax liabilities over the 3 years.

Use the information above to compute the taxable income for the 3 years after utilising the appropriate loss reliefs. You should consider two options for farming losses, Option 1 farmer's averaging relief and Option 2 s.46 loss relief.

Note: You are not required to compute the tax savings.

**Exhibit 4****Memo from Kopano Motsisi**

**From:** Kopano Motsisi, Tax Manager  
**To:** A Tax Adviser  
**Subject:** Lesego – income from investments in South Africa

Lesego, a Motswana, realised the following income from investments in South Africa during the year ended 30 June 2018:

	<b>P</b>
Business income from a consultancy operated in Sandton (net of 28% of income tax)	225,000
Dividends from Illova (pty) Ltd S.A (net of 10% withholding tax)	27,000
Capital gain on disposal of immovable property (net of tax of 33.3%)	291,110

Lesego remitted 50% of all the foreign income to her Botswana bank accounts. Lesego's Botswana taxable income for the year 30 June 2018 is P418,000. She wants to know how her foreign income will be taxed in Botswana as a colleague had informed her that income from a source outside Botswana would not be liable to tax in Botswana. Compute the tax payable by Lesego for the ended 30 June 2018.

**Exhibit 5****Memo from Kopano Motsisi**

**From:** Kopano Motsisi, Tax Manager  
**To:** A Tax Adviser  
**Subject:** Provision of tax consultancies to Mokaila and Mokobi

Mokaila and Mokobi are interested in the acquisition of a sole trader's business and they both seek the advice from our firm regarding the tax implications and negotiation of the sales price. As you may be aware, the two clients are not connected parties and they are both our long standing clients. Mokaila and Mokobi do not know that they are both seeking for advice from our firm.

Kindly draft me some notes concerning the ethical implications for our firm in providing advice to the two clients and how may overcome those ethical issues.



## Question 2

You are Tebogo Osadi, a trainee tax adviser working for OX Associates. The tax partner, Zolile is due to go on an annual leave and has sent you the following email.

**From:** Zolile

**To:** Tebogo Osadi

**Date:** 1 June 2018

**Subject:** Maun Ltd

Hi Tebogo,

I will be proceeding on my annual leave for 30 days. In preparation for my long absence, I had a meeting with Thuso Tshenolo, the finance manager of Maun Ltd. During the meeting Thuso informed me of several transactions which have taken place during the year which may impact the taxable income for the year ended 31 May 2018. The transactions listed in **Exhibit 1** have not yet been recognised in the computation of the draft taxable income. The draft taxable income for the year ended 31 May 2018 before accounting for the transactions in **Exhibit 1** was P2,188,000.

The directors wish to take advantage of any tax reliefs that may result in the overall reduction or postponement of the company's tax liability.

Kindly provide brief notes for the directors of Maun Ltd and finalise the computation of taxable income for Maun Ltd and its tax payable for the year ended 31 May 2018.

Regards,

## Background

Maun Ltd is a Botswana resident company operating in the hardware wholesale business and manufacture of plastic products. Maun Ltd also has investments in other companies and properties. It is owned by three individuals, Thuso Tshenolo (30%) and his wife, Tibe (40%) and Ebineng Mogorosi (30%). Thuso and Tibe are executive directors of the company. Ebineng is a non-executive director of the company,

Maun Ltd is VAT registered and the transactions referred to below are VAT exclusive.

## Requirements

Prepare brief notes with illustrations for the directors of Maun Ltd and re-compute the taxable income for the year ended 31 May 2018.

**Total 35 marks**

### Exhibit 1

The transactions listed below have not been included in the draft taxable income for the year 31 May 2018.

#### i) Disposal of a branch as a going concern to VAT registered sole trader

Maun Ltd intends to dispose of the branch to a sole trader on 1 July 2018. The branch business is conducted in rented premises. The landlord intends to avail the property to the new owners. The negotiations are advanced and the purchase price was agreed at P800,000, broken down as follows:

	<b>P</b>
Brand for the solar panels	200,000
Goodwill	150,000
Inventories (cost P280,000)	450,000

Both the brand and the goodwill were internally generated.

The directors would like to an explanation of the VAT, income tax and capital gains tax implications of the disposal.

#### ii) Acquisition of a second hand light truck

On 12 December 2017, Maun Ltd disposed of a delivery truck for P280,000. The truck had cost P420,000 in August 2014. The delivery truck was immediately replaced with a second hand light truck which cost P168,000 cash from a non-registered individual.

The directors would like to take advantage of any income tax reliefs that may be available on the disposal and acquisition on these vehicles. The directors were also unsure of the VAT implications of buying a second hand light truck from a non VAT registered individual and would like an explanation.

#### iii) Disposal of a factory

In September 2017, Maun Ltd disposed of a factory for P1,744,241. The factory was acquired in January 2012 for P1,130,000 out the partial proceeds of a warehouse that was sold for P1,500,000. The warehouse had originally cost P680,000 and had realised a chargeable gain of P520,000 on disposal. Maun Ltd

made appropriate claims to mitigate its tax liabilities at the tax year end of the disposal of the warehouse by deferring the capital gain.

The directors would also like to know the income tax, capital gains tax and VAT implications.

**iv) Termination of contract**

In January 2017, Maun Ltd entered into a three year contract with Desert Contractors to be the sole supplier of hardware. Desert Contractors were engaged by the Botswana government to build a modern hospital. In July 2017, Desert Contractors decided to terminate the contract with Maun Ltd. Maun Ltd took the matter to court contending that the termination of the contract caused it to suffer loss of income. In March 2018, the court ruled in favour of Maun Ltd and awarded damages of P612,000. Desert Contractors settled the damages in May 2018.

The directors are not sure of tax treatment of the damages received. One of the directors was of the opinion that the amount is non-taxable. Briefly explain the tax treatment for the damages received.

**v) Interest free loan of P200,000 to Tibe**

In June 2017, Maun Ltd made an interest free loan to Tibe of P200,000. The loan remained outstanding during the whole year. It is expected that Tibe will settle the loan in three to five years when she would be ready to do so.

Briefly explain how the interest free loan to Tibe will be accounted for under income tax. Your explanation must include the income tax implications for Maun Ltd and for Tibe.

**Question 3**

You are a BICA Chartered Accountant in practice. Thapelo Rantao, aged 66, is a client of your firm. Mr Rantao is a wealthy man with various successful business interests.

Mr Rantao has been diagnosed with a terminal illness. His doctors have advised that he will be expected to die within the next five years from today's date. He has asked your firm to plan his affairs to minimise the tax liabilities which could arise as a result of his death.

Mr Rantao and his wife, Mrs Dikeledi Rantao have two children:

- Mogogi aged 30, and
- Monyatsi aged 35.

Monyatsi has three children, aged 10, 12 and 14 from his marriage. Mogogi got married during the tax year 2017/18.

Mr Rantao has provided you with:

- A list of all the lifetime gifts he made during the tax year 2017/18 (**Exhibit 1**)
- A list of all his assets and liabilities and their current market values (**Exhibit 2**).  
The list also includes the legatees.

Mr Rantao wants to ensure that he gives his assets to his immediate family and a childhood friend, Koontse, whose residence and domicile is in South Africa. He is willing to make either lifetime or death gifts, so that he can minimise the overall tax liability arising on the gifts.

### **Requirements**

Prepare a draft notes for Mr Rantao which:

- 3.1 quantify the capital transfer taxes that will be payable on life time gifts and taxes that would become payable if Mr Rantao were to die on 30 June 2018; and
- 3.2 Briefly recommend to Mr Rantao how the capital transfer tax could be minimized for his beneficiaries in the five years to his estimated date of death.

**Total 25 marks**

### **Exhibit 1**

#### **Gifts made by Mr Rantao during the tax year 2017/18:**

<b>Date</b>	<b>Asset</b>	<b>Donee</b>	<b>Market value At date of gift</b>
July 2017	Gift of shares	Mrs Rantao	P200,000
August 2017	Cash	Mogagi on the occasion of his marriage	P100,000
January 2018	Cash	all the grandchildren For their education	P50,000 each

## Exhibit 2

Thapelo Rantao

<b>Asset/liability</b>	<b>Donee</b>	<b>Estimated Market value at 30 June 2018 P</b>
Family car – Mercedes Benz	Monyatsi	300,000
Mercedes Maybach	Dekeledi	800,000
Family home- owned jointly with wife	Mogagi	2,500,000
Joint mortgage secured on family home		(400,000)
Lodge in Mochudi (see below)	Monyatsi	1,590,000
House in South Africa	Koontse	1,100,000
Shares in Gemstone	Monyatsi/Mogagi	560,000
Cash		180,000

### Note:

- a) Mr Rantao will leave his share in the family home to Mogagi.
- b) Monyatsi is entitled to the income of the lodge for a period of 20 years after which time the lodge would ultimately be passed to the grandchildren of Mr Rantao. The current annual income of the lodge is P288,000.
- c) At 30 June 2018, Mr Rantao owed P58,000 to various creditors. The balance of any cash would be gifted to Mrs Rantao.

**END OF EXAM**