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# TAX COMPLIANCE

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This paper consists of **FIVE** 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.

**Assume that the Finance Act 2017/18 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**

## Tax Tables FA 2017/18

### Resident companies

On taxable income

Standard rate	22%
Manufacturing company rate	15%

### 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

### TABLE IV – Applies to Net Aggregate Gains of Individuals

Taxable gain	tax payable
More than	% on excess
0 - 18 000	0
18 000 - 72 000	0 + 5% on excess over P18 000
72 000 - 108 000	2 700 + 12.5% on excess over P72 000
108 000 - 144 000	7 200 + 18.75% on excess over P108 000
over 144 000	13 950 + 25% on excess over P144 000

### 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 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 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%

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 allowances

The following rates are fixed by Commissioner General of BURS as fair and reasonable having regard to the expected useful economic 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%
Office Equipment	15%
Off-the-shelf computer software	100%

### Industrial and commercial buildings

Industrial building – initial allowance	25%
Industrial building – annual allowance	2.5%
Commercial building – annual allowance	2.5%

## CAPITAL TRANSFER TAX RATES

	<b>Aggregate Taxable Value</b>	<b>Rate of Tax per cent</b>
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

**COST OF LIVING INDEX – JULY 1982 to APRIL 2018**

<b>YEAR</b>	<b>Jan</b>	<b>Feb</b>	<b>Mar</b>	<b>Apr</b>	<b>May</b>	<b>Jun</b>	<b>Jul</b>	<b>Aug</b>	<b>Sep</b>	<b>Oct</b>	<b>Nov</b>	<b>Dec</b>
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	1172.8	1176	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	1832.3	1856.8								

- 1.1** Your tax manager, Lebogang, will be running a tax workshop for clients soon. Among other things, she will be making a presentation on ethical issues. She has asked to prepare draft notes on the threats to compliance with the fundamental principles that an accountant may be faced with in the execution of their job.

**Requirement**

**Prepare brief notes for Lebogang which explain four threats to compliance with the fundamental principles.** (4 marks)

- 1.2** You work in a firm of BICA Chartered Accountants. A colleague, Mmatema, from your office has confided in you concerning a disagreement with the Finance Manager of a long standing client. She is not sure of what to do after the discussion with the Finance Manager did not yield any positive outcome.

**Requirement**

**Briefly explain to your colleague on how she may proceed to resolve the disagreement or conflict with the Finance Manager.** (3 marks)

**Total: 7 marks**

- 2.1** Loapi Ltd is a VAT registered trading company. Loapi Ltd deals in selling and servicing computers. The following relates to the transactions during November 2018:

1. Local sales of computers for P560,000, invoiced in November 2018.
2. Local sales of computers for P225,000 invoiced in December 2018. The customers were not related to Loapi Ltd.
3. Sales to Zimbabwe for P124,000.
4. Sales from servicing computers from local customers for P84,000.
5. Sales from servicing computers from Zimbabwean customers for P28,000.
6. Purchases of computers for resale from local VAT-registered traders for P312,000.
7. Purchase of second hand computers for resale from non VAT-registered traders amounting to P61,600.
8. Paid rent on its warehouse and office building amounting to P24,000.
9. Paid electricity bills amounting to P1,500.
10. Paid fuel for a company vehicles of P23,000.

All figures above are stated exclusive of VAT, wherever relevant.

**Requirement**

**Calculate the net VAT payable by or repayable to Loapi Ltd for November 2018. Show the VAT treatment of all items.** (10 marks)

**2.2** Mexico Ltd, a resident company and 100% owned by Batswana, purchased a plot of land for P400,000 from Gosego on 16 October 2018. The plot of land is not classified as agricultural land. Mexico Ltd is registered for VAT. Gosego is not registered for VAT.

**Requirement**

**Explain the VAT/transfer duty implications for Mexico Ltd arising from the acquisition of the plot of land from Gosego.** (4 marks)

**Total: 14 marks**

**3.1** Moremi, a Motswana, lives in Gaborone. On 23 April 2018 he:

- Sold 44,000 shares in Arggy Ltd for P360,800.

Moremi acquired 30,000 shares in Arggy Ltd for P75,000 on 13 May 2000. In January 2005, Arggy made a 1 for 3 bonus issue. In August 2012, Arggy Ltd made a rights issue of 2 for 5 for P5.50 per share.

- Sold a warehouse that was rented out though out the period of ownership for P1,500,000. Moremi purchased the warehouse in July 2013 for P820,000 and incurred legal fees of P16,400. On 13 November 2015, Moremi incurred the following expenditure:
  - Replacement of a roof with a better one at a cost of P108,000
  - Tiling the warehouse at a cost of P82,000. The warehouse previously had no tiles.
- Moremi had a trading income of P150,000 in the tax year 2017/18.

**Requirement**

**Calculate Moremi's net chargeable capital gains for 2017/18 and his total tax liability for the tax year 2017/18.** (15 marks)

**3.2** Modise, a widower, died on 5 November 2018. He left a will which provided for the following bequests:

- To his mother, Alice, a house in Mochudi valued at P420,000.
- To his sister, Tshegofatso, a flat in Johannesburg valued at P660,000. Tshegofatso is domiciled in Botswana but stays in South Africa.
- To his son, Kenosi, the family home in Phakalane valued at P1,800,000 which was purchased with a mortgage from Building society. There was an outstanding balance of P200,000 on the home mortgage loan.
- To Tshegofatso, 20,000 shares in BDD Ltd valued at P10.20 per share.

**Requirement**

**Calculate the chargeable transfer for capital transfer tax purposes, if any, that would arise from the death of Modise. Clearly show your treatment of each item and indicate who is liable.** (8 marks)

**3.3** Boikhutse owns a family company in which he has 60% of the voting rights. The company is classified as a close company.

Boikhutse made an interest free loan of P200,000 on 1 July 2017. The loan will be repayable after three years.

Assume that the official interest rate is 5% p.a.

### Requirement

**Briefly explain close company tax implications arising as a result of the interest free loan for Boikhutso and his company.** (5 marks)

**Total: 28 marks**

**4** Sechabah Ltd is a trader of farming equipment. The following information is relevant for the year ended 30 September 2018:

### Operating profit

The operating profit was P1,570,000. The expenses that have been deducted in calculating this figure include the following:

	<b>P</b>
Depreciation and amortisation of lease	445,200
Lease rentals	60,000
Entertainment of customers	57,100
Entertainment of employees	32,470
Gifts to customers (diaries costing P25 each displaying Sechabah Ltd's name)	21,400
Legal fees incurred in relation to the leasehold	25,000

### Leasehold property

On 1 October 2017 Sechabah Ltd acquired a leasehold office building that is used for business purposes. The company paid a premium of P180,000 for the grant of a twenty-year lease out of the proceeds of a loan. The interest incurred on the loan during the year amounted to P16,230.

### Construction of a hotel

Sechabah Ltd completed the construction of a 20 roomed hotel on 1 October 2017 for P960,000. The hotel was immediately brought in to use. The cost was made up as follows:

	<b>P</b>
Hotel	634,000
Hotel drawings	36,000
Site preparation	18,000
Land	272,000
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	960,000



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### Income and expenses from the hotel

The hotel business made a tax loss of P228,000 in the year ended 30 September 2018.

### Capital allowances details for Plant and machinery & Warehouse

	Cost b/f P	Allowances granted b/f P	Additions P	Disposal proceeds P
Delivery trucks	530,000	265,000	220,000	-
Mercedes Benz (Note 1)	670,000	?	850,000	360,000
Fixtures and fittings	108,200	43,280	-	-
Warehouse (Note 2)	510,000	60,000	-	-
Computer (Note 3)	105,000	105,000	28,000	4,300

Notes:

1. The Mercedes Benz was used by the chief executive officer. He used the Benz 20% for business purposes only. The Benz that was sold during the year was acquired in March 2015.
2. The cost of the warehouse included P210,000 for the land.
3. The computer that was acquired during the year included P13,000 for the preloaded software. The computer that was disposed was fully written off for tax purposes.

### Self-assessment

At the beginning of the accounting period, Sechabah Ltd had estimated that its taxable income for the year ended 30 September 2018 was P1,500,000. This estimate was never revised during the accounting period. Accordingly, quarterly instalments for self-assessment were paid on the basis of the estimation.

**Ignore value added tax (VAT).**

**Required:**

- (i) **Compute Sechabah Ltd's taxable income for the year ended 30 September 2018.** (16 Marks)
- (ii) **Compute Sechabah Ltd's tax liability for the year ended 30 September 2018.** (2 marks)
- (iii) **Calculate:**
  - a) **the self-assessment quarterly instalments paid,**
  - b) **the quarterly instalment payable and**

c) **the final top-up amount payable.**

(6 marks)

**Total: 28 marks**

**5.1** Tshepang was employed full time as a graphics designer. He was employed on a two-year contract which was concluded on 30 June 2018. His employment package provided for the following:

	<b>P</b>
Annual salary	447,120
Entertainment allowance	24,000
Commission	56,000
Medical aid – annual contribution by company	36,000
Pension contribution by company – 15% of annual salary	
Pension contribution by employee – 10% of annual salary	
Provision of company car - cost	300,000
School fees for his two children – per annum	60,000
Utilities allowance	30,000

**Other information for the year ended 30 June 2018:**

1. Tshepang had only used P8,000 on entertaining the company's customers.
2. The cost of running the company car including fuel, repairs and insurance amounted to P26,600. Tshepang pays for fuel for personal trips;
3. The contract provided for a gratuity of 30% on the annual salary. The annual salary for the year ended 30 June 2017 was P402,410. This was his first contract;
4. Tshepang was paid a utilities allowance for water, electricity and house maid.
5. The pay as you earn deducted from the salary by the employer amounted to P88,830.
6. Tshepang purchased an Apple Macbook pro 2017 laptop on 1 July 2017 for P32,000. The laptop was used 90% for his employment purposes.

**Required:**

- i) **Calculate the taxable employment income for Tshepang for the tax year 2017/18. Indicate with a 0 where an item is not taxable.** (10 marks)
- ii) **Calculate the tax payable by Tshepang for the tax year 2017/18.** (2 marks)

**Calculate to the nearest P1.**

**5.2** Tshepiso, a Motswana, has different sources of income.

During the tax year 2017/18, Tshepiso received the following income:

- Gross employment income of P420,000. Income tax of P82,050 was deducted at source via PAYE.
- Local dividends received of P7,400, withholding tax of P600 was deducted at source.
- Incurred an allowable farming loss of P120,000.
- Tshepiso carried on a business and made a trading income of P260,000.
- Gross rental income of P180,000 from letting a residential property to a company. The company deducted withholding tax of P9,000 at source.
- Received debenture interest of P16,000 from a local company.
- Received bank deposit interest of P15,000 gross, withholding tax of P720 was deducted at source.
- Received consultancy fees of P28,000 for a training engagement he was awarded.

**Requirements**

**Calculate Tshepiso's total taxable income for the tax year 2017/18. Indicate with a zero if there is no tax adjustment on any item.** (9 marks)

**Total: 23 marks**