



## **Botswana Institute of Chartered Accountants**

### **Tax Compliance**

### **Examination Paper**

Date: 05 June 2018

Time: 09:00 am -11.30 am

Time allowed: 2 hours 30 minutes

### **Instructions to Candidates**

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 (WEF 1 July 2013)

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**

<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%

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

	<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

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

<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>
<b>1982</b>	...	...	...	...	...	...	100.0	101.2	101.2	102.1	103.3	103.8
<b>1983</b>	104.1	104.8	105.5	106.6	108.3	108.4	109.0	110.2	110.2	110.7	111.7	112.3
<b>1984</b>	113.5	114.5	115.2	116.0	116.9	118.3	119.1	120.1	119.8	120.7	119.7	119.5
<b>1985</b>	119.9	120.7	122.0	124.1	126.6	128.6	130.1	129.8	131.1	131.5	131.8	132.0
<b>1986</b>	133.9	135.5	135.5	136.8	138.0	140.9	141.2	141.8	142.7	143.4	144.7	146.3
<b>1987</b>	147.4	148.5	148.9	151.9	153.6	154.1	154.9	156.6	156.7	157.1	157.5	158.1
<b>1988</b>	157.8	158.7	160.8	163.4	164.1	165.5	168.0	169.3	171.0	172.6	173.9	174.4
<b>1989</b>	176.9	178.0	180.1	182.7	184.1	186.2	187.3	188.7	190.2	191.1	191.5	194.2
<b>1990</b>	196.6	199.0	200.5	204.1	205.1	206.0	207.2	209.2	210.7	212.6	216.0	217.6
<b>1991</b>	220.5	221.4	223.5	225.8	227.3	229.0	232.0	234.2	237.2	239.5	242.5	244.9
<b>1992</b>	248.3	251.7	256.3	262.1	265.5	269.4	272.3	275.0	277.6	280.1	283.0	285.4
<b>1993</b>	291.0	293.1	295.8	301.1	303.1	306.0	311.6	313.5	315.0	317.6	320.1	321.5
<b>1994</b>	324.2	326.8	328.5	332.7	337.3	340.2	343.1	345.3	347.0	348.4	351.3	353.0
<b>1995</b>	357.9	361.0	364.9	368.6	370.5	374.9	377.8	381.6	384.3	386.0	387.9	391.3
<b>1996</b>	395.5	398.1	402.2	405.6	408.8	413.9	417.0	419.5	421.6	423.8	426.0	428.7
<b>1997</b>	431.6	435.5	439.7	443.6	448.7	451.2	454.1	454.9	457.5	459.7	460.9	461.9
<b>1998</b>	464.8	466.0	469.9	476.0	477.9	478.9	481.0	484.0	484.4	486.9	489.5	491.2
<b>1999</b>	495.1	499.7	504.3	507.5	509.2	513.3	514.3	517.7	521.1	523.5	524.0	525.2
<b>2000</b>	530.8	536.3	538.8	545.5	548.9	552.0	568.6	569.8	571.4	576	577.5	578.7
<b>2001</b>	581.4	582.1	587.2	598.9	596.9	598.6	601.3	603.0	605.4	608.5	610.2	611.0
<b>2002</b>	613.1	613.9	622.1	629.6	631.3	634.0	654.4	662.4	666.7	670.8	677.6	679.3
<b>2003</b>	683.2	689.0	692.2	701.4	705.8	715.0	714.5	698.0	707.0	715.9	717.9	718.9
<b>2004</b>	721.3	728.6	735.8	743.6	754.0	721.3	758.9	761.3	765.7	770.7	772.4	774.9
<b>2005</b>	779.2	781.7	783.8	789.4	801.5	813.2	821.2	834.8	842.3	857.1	859.7	863.1
<b>2006</b>	877.4	884.0	891.5	901.4	909.6	915.0	918.6	924.2	930.8	936.4	935.4	936.4
<b>2007</b>	942.9	948.5	949.5	957.7	968.1	974.5	988.5	991.2	994.1	1004.3	1007.2	1012.8
<b>2008</b>	1022.2	1034.4	1043.1	1064.7	1085.0	1115.1	1136.7	1140.6	1133.8	1135.5	1159.0	1151.2
<b>2009</b>	1152.7	1155.1	1165	1172.8	1176	1193.4	1204.8	1209.7	1213	1213.3	1217.2	1218.4
<b>2010</b>	1223.2	1225.4	1234.6	1256.2	1268.6	1285.3	1289.7	1290.6	1297.9	1300.6	1304.2	1309.1
<b>2011</b>	1320	1330.2	1338.9	1359.0	1373.6	1386.4	1380.6	1403.4	1409.0	1415.0	1424.0	1428.8
<b>2012</b>	1436.1	1440.0	1446.5	1460.4	1480.0	1487.3	1492.1	1496.7	1508.9	1515.4	1530.2	1534.8
<b>2013</b>	1544.3	1546.9	1555.4	1565.6	1570.2	1573.8	1576.7	1580.4	1584.3	1587.9	1593.5	1598.1
<b>2014</b>	1611.1	1618.6	1624.2	1637.2	1641.8	1646.5	1648.4	1653.0	1655.8	1662.4	1667.0	1663.3
<b>2015</b>	1670.7	1664.2	1669.8	1687.5	1690.3	1696.8	1698.7	1701.5	1704.2	1708.9	1709.8	1708.9
<b>2016</b>	1715.4	1714.5	1721.0	1735.9	1737.8	1741.5	1744.3	1747.1	1751.7	1755.2	1758.7	1760.5
<b>2017</b>	1769.2	1772.7	1781.5	1795.5	1799.0	1802.5						

### **Question 1**

Neo's cousin Palesa, a chartered accountant, prepares Neo's tax return every year. Palesa derives most of her professional income from her work for Neo and other members of Neo's family, Neo has told Palesa that on her tax return for 2017/18 she does not wish to reflect the gain from the disposal of a plot of land. This will result in a lower capital gains tax liability for Neo.

#### **Requirement**

Identify the ethical threats to which Palesa is exposed in this situation and explain which of the fundamental principles applicable to chartered accountants she would breach by knowingly preparing an incorrect return for Neo.

**(Total: 7 marks)**

## Question 2

Good Hope Ltd (Good Hope) carries on the business as a general dealer to various clients in Francistown. Good Hope's profit and loss account for the year ended 31 March 2018 is as follows:

	Note	P'000	P'000
<b>Income:</b>			
Revenue	1	5,800	
Interest income (gross)	2	100	
Bad trade debts recovered	3	230	
Dividend from local companies (gross)		210	
		<hr/>	6,140
<b>Expenses:</b>			
Staff salaries		2,100	
Rent and rates		308	
Interest expense		38	
Training expenditure	4	162	
Depreciation		444	
Employer's contributions	5	140	
Impairment of non-current assets		198	
Loss on fixed asset disposal	6	186	
Entertainment of customers		100	
Christmas party hosted for employees		130	
Other allowable business expenses		780	(4,586)
		<hr/>	<hr/>
<b>Net profit for the year</b>			<b>1,554</b>

The notes below relate to the extract above:

Note:

1 The revenue includes goods worth P300,000 sold on a sale or return basis. The buyers have until 30 May 2018 to return the goods.

2	Interest income consists of:	P'000
	Bank deposit interest gross (WHT of P8,000)	80
	Interest on a tax over payment from BURS	20

3 Bad trade debts recovered of P230,000

One of the customers went into liquidation in 2016. The customer was owing Good Hope P430,000. This amount was written off in 2016. In January 2018, Good Hope was paid P230,000 as final settlement for the debt.

4 Training expenditure was incurred on employees and qualifies as approved training expenditure.

5 Employer's contributions to approved superannuation funds.  
The contributions P140,000 representing 10% of the basic salaries of P1,400,000.

6 Non-current assets disposals (also refer to Note 8)

Sold a delivery van for P150,000 in October 2017. The delivery van was purchased in January 2015 for P480,000.

7 Ignore VAT.

8 An extract of Good Hope's non-current asset movements for the year ended 31 March 2018 is as follows:

	Cost b/f	Additions during year	Disposal during year b/f	Allowances granted
	P'000	P'000	P'000	P'000
Commercial building				
- Land	180	-	-	0
- Building	800	-	-	200
Delivery vans	2,980	340	(480)	1,490
Motor vehicles	968	210	-	778
Computers	130	40	-	65

**Notes:**

- The motor vehicle acquired during the year was a car for the Finance Manager. The cost of the other vehicles were less than P175,000.
- The addition to the computers was a new resource management software package.

**Required:**

(a) Compute the capital allowances and any balancing adjustments for Good Hope Ltd for the year ended 31 March 2018. (10 marks)

(b) Compute the taxable income and income tax payable for Good Hope Ltd in respect of the year ended 31 March 2018. Your answer should indicate a 0 where no adjustment is required in the computation of the taxable income.

(15 marks)

(Total: 25 marks)



**Question 3(a)**

Tebogo and Thabo have been in partnership for many years sharing profits in the ratio of 1:1. On 1 July 2017, the partnership admitted Tsheko and the partnership agreement was changed as follows:

	Tebogo	Thabo	Tsheko
Profit share	2	2	1
Annual salary (P)	144,000	120,000	90,000

The partnership prepares its accounts to 31 March annually.

The profit and loss account of the partnership drawn up for the year ended 31 March 2018 is as follows:

	P'000	P'000
Revenue		4,300
<i>Less:</i> Cost of goods sold		(1,800)
		<hr/>
Gross profit		2,500
<i>Less:</i> Rent	220	
Salaries & wages for employees	510	
Other expenses	190	
Depreciation	140	
Accountant's fees	15	
Bank deposit interest	60	(1,135)
	<hr/>	<hr/>
Net profit		1,365

**Other information:**

The capital allowances on plant and machinery for the partnership for the year ended 31 March 2018 has been correctly calculated as P235,000.

**Required:**

**Compute the chargeable partnership income for each of the partners for the Tax year 2017/18. (10 marks)**

**Question 3(b)**

Tumelo, Tebogo's wife, was employed as a librarian at a college in Gaborone on permanent and pensionable basis.

Her employment provided for the following during the year ended 30 June 2018:

	P	P
Salary		320,000
Housing allowance		60,000
Contributions to approved pension fund:		32,000
• Employer's contributions	16,000	
• Employee's contributions	16,000	
	-----	
Annual leave passage		12,000
Amount reimbursed for medical fees		8,500
Amount reimbursed for children's school fees		30,000
Leave commutation for 15 days		18,182
<b>Note:</b>		
Tumelo's donation to a political party		10,000
PAYE deducted from Tumelo's salary at source		57,050
Tumelo paid annual subscriptions to the Library Association		4,000
The employer did not pay for Tumelo's subscriptions		

**Compute the taxable income and tax payable by Tumelo for the tax year 2017/18.**

**(9 marks)**

**(Total: 19 marks)**

#### Question 4(a)

Ghanzi Plastic manufacturers Ltd (Ghanzi), a Botswana resident company, has been a VAT registered trader since its incorporation. Ghanzi sells its products both locally and internationally. Ghanzi only makes taxable supplies. All the transactions were with VAT registered traders, unless otherwise stated.

The amounts below are all stated VAT inclusive wherever applicable.

The following details relate to its one month tax period for May 2018:

<b>Income</b>	P'000
Local sales	1,299.2
Export sales	280.0
Sale of a company car	145.6
Sale of good marked down (original cost was P22,400)	16.8
Interest income	15.2
	<hr/>
Total income	1,756.8
	<hr/>
<b>Expenditure</b>	
Administration expenses	
– salaries	750.4
- Hotel charges for employees on company business	117.6
- Legal fees	50.4
Bad debts written off during month (see note iii)	33.6
Rent of premises	44.8
Purchase of goods from local supplies	582.4
Purchase of goods from foreign supplies	280.0
Overheads	168.0
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Total expenditure	2,027.2
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#### Other information relating to May 2018:

- i. Ghanzi purchased a plot of land for P420,000 from an individual who was not registered for VAT.
- ii. Ghanzi purchased a large curved TV for the staffroom from Game for P45,000. The TV was for the entertainment of the employees.
- iii. The bad debt written off relate to an invoice that was issued 15 months ago which the customer had failed to settle due to financial difficulties.

#### Required:

**Prepare the VAT return for the period May 2018 for GMD. Your answer must clearly compute the VAT payable or refundable. Indicate by the use of a zero (0) for any item which does not result in either input VAT or output VAT.**

**(16 marks)**

#### Question 4(b)

Ghanzi Plastic Manufacturers (Pty) Ltd had constructed an industrial building in August 2005 which was used for the purpose of manufacturing plastic products. The industrial building was not in use for the period from 1 June 2012 to 31 October 2014 due to operational challenges.

The industrial building together with the canteen were disposed of in June 2017 for P3,600,000. The details of the cost of the construction were as follows:

	P
Architectural drawings:	
• Industrial building	60,000
• Administration block	42,000
Land :	
• Industrial building	220,000
• Administration block	140,000
Site clearance and preparation:	
• Industrial building	30,000
• Administration block	12,000
Industrial building	530,000
Canteen building next to the industrial building	170,000
Administration block (100 metres away the industrial building to avoid the corrosive effects)	280,000
	<hr/>
Total cost	1,484,000
	<hr/>

In addition, Ghanzi sold some shares it owned in a private company. Ghanzi bought 10,000 shares for P40,000 in July 2010. In May 2015, Ghanzi fully subscribed for a 3 for 5 rights issue at a cost of P6 per share. In January 2018, Ghanzi sold 12,000 shares for P65,000.

Ghanzi prepares its accounts to 31 December annually.

**Ignore VAT.**

**Required:**

- (i) Compute the gain/loss on the disposal of GMD's industrial property. (8 marks)
  - (ii) Explain any income tax consequences arising on the disposal of the industrial property. Illustrate your answer with figures. (5 marks)
  - (iii) Compute the gain/loss arising on the disposal of shares, (3 marks)
- (16 marks)**  
**(Total: 32 marks)**

### **Question 5(a)**

Kefilwe and Kitso have been married for a number of years and have two children, a son (Motoso) and a daughter (Oratang). Kefilwe died from a terminal illness on 15 December 2017.

Kefilwe was married out of community and at the time of her death she owned the following assets:

The matrimonial house worth P1,200,000.

A life assurance policy of P1,000,000.

A flat in Gaborone worth P1,230,000 secured with a mortgage loan with an outstanding balance of P250,000.

A flat in Johannesburg valued at P920,000.

Cash (P400,000), household goods (P80,000) and other personal effects (P60,000), totalling P682,000. Funeral expenses incurred amounted to P42,000.

The terms of Kefilwe's will provided for the following:

1. Kitso inherits the matrimonial house.
2. The flat in Gaborone to the daughter Oratang.
3. The flat in Johannesburg to a niece, Mpho. Mpho is domiciled in South Africa.
4. Cash, household goods and other personal effects were bequeathed to Motoso and Oratang, equally.
5. Life assurance policy was bequeathed to Motoso.

### **Required**

**Calculate the capital transfer tax that would be due as a result of Kefilwe's death.**

**(14 marks)**

**Question 5(b)**

Kitso runs a family business which qualifies as a close company. During the tax year 2017/18, Kitso provided a company car to Oratang for her personal use. The car cost P340,000.

**Required:**

Explain the tax implications, if any, of the provision of a company car to Oratang.

**(3 marks)**

**(Total: 17 marks)**