



Botswana Institute of Chartered Accountants

JUNE 2018 TAX COMPLIANCE

MARKING KEY

(SUGGESTED ANSWERS AND MARKING SCHEME)

Question 1

The ethical threats are as follows:

Self-interest: Palesa is financially reliant on income from work for Neo and her other family members.

Familiarity: There is both a professional and a family relationship here.

Fundamental principles breached if Palesa prepares an incorrect return.

Integrity: A chartered accountant should not prepare a return containing a false statement.

Objectivity: Palesa should not let family ties influence her judgement.

Professional behaviour: Part of professional behaviour expected of a chartered accountant is compliance with the law, and deliberately assisting tax evasion would be illegal.

(1.5 marks per each valid point – maximum marks 7 marks)

Question 2 (a)

Computation of capital allowances and balancing adjustments fye 31 March 2018:

Balancing adjustment on disposal of delivery van:

	P	
Cost – January 2015	480,000	
Capital allowances granted:		
2015 – 2017:		
P480,000 x 3 years x 25%	(360,000)	

Income tax value b/f	120,000	
Sales proceeds	(150,000)	

Balancing charge	30,000	3

Computation of capital allowances:

Land	0	1
Buildings – P800,000 x 2.5%	20,000	1
Delivery vans – (P2,980,000 – P480,000 + P340,000) x 25%	710,000	1
Computers:		
• Balance b/f – P130,000 x 25%	32,500	1
• Additions during the year – P40,000 x 100%	40,000	1
Motor vehicles:		
• Balance b/f – P968,000 x 25% = P242, restricted to	190,000	1
• Additions – P175,000 x 25%	43,750	1
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Total capital allowances	1,036,250	10
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Question 2 (b)

Computation of taxable income fye 31 March 2018:

	P'000	P'000	
Net profit per accounts		1,554	1
Less: goods on sale or return		(300)	1
Interest on overpaid tax		(20)	1
Bad trade debts recovered		0	1
Dividend received		(210)	1
Training expenditure		(162)	1

		862	
Add: staff salaries	0		½
Rent and rates	0		½
Interest expense	0		½
Depreciation	444		½
Employer's contribution	0		½
Impairment of non-current assets	198		1
Loss on disposal of non-current assets	186		1
Entertainment of customers	0		1
Christmas party for employees	0		1
Other allowable expenses	0		½
	-----	828	

		1,690.00	
Add: balancing charge		30.00	1
Less: capital allowances		(1,036.25)	1
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Taxable income		683.75	15
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(TOTAL: 25 MARKS)

Question 3 (a)

Computation of chargeable partnership taxable income fye 2017/18:

	P'000	
Net profit per accounts	1,365	
Add: depreciation	140	
Less: capital allowances	(235)	

Taxable income	1,270	2

Allocation of taxable income to the partners:

	Total P'000	Tebogo P'000	Thabo P'000	Tsheko P'000	
1/4/17 – 30/6/17 (3 months)					
Taxable income P1,270 x 3/12	317.5	158.75	158.75	-	2
1/7/17 – 31/3/18					
P1,270 x 9/12	952.5				
Salaries for 9 months	(265.5)	108.00	90.00	67.5	3

	687.0				
Share of residual income	(687.0)	274.8	274.8	137.4	3
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Taxable income	0	541.55	523.55	204.9	10
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Question 3 (b)

Computation of taxable employment income fye 30 June 2018:

	P	
Salary	320,000	
Housing allowance	60,000	1
Annual leave passage	12,000	1
Amount reimbursed for medical	0	1
Amount reimbursed for school fees	30,000	1
Leave commutation	18,182	1

	440,182	
Less: employee's contribution	(16,000)	1
Annual subscription	(4,000)	1

Taxable employment income	420,182	

Tax payable:		
First P144,000	13,050.00	
Next P276,182 x 25%	69,045.50	

	82,095.50	1
Less: PAYE deducted at source	(57,050.00)	1
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Tax payable	25,045.50	9
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(TOTAL: 19 MARKS)

Question 4 (a)

Computation of VAT payable for Ghanzi for May 2018:

	P'000	
Output VAT		
Local sales – P1,299.2 x 12/112	139.2	1
Export sales – P280 x 0%	0.0	1
Sale of company car	0.0	1
Sale of marked down goods P16.8 x 12/112	1.8	1
Interest income	0.0	1

Output VAT	141.0	

Input VAT:		
Salaries	0.0	1
Hotel charges	0.0	1
Legal fees P50.4 x 12/112	5.4	1.5
Bad debts written off – P33.6 x 12/112	3.6	1.5
Purchase of goods:		
• From local suppliers P582.4 x 12/112	52.4	1.5
• From foreign suppliers P280 x 12/112	30.0	1.5
Overheads – 168 x 12/112	18.0	
Purchase of plot of land:		
• Transfer duty – (P420 – P200) x 5%	11.0	1
Purchase of TV – entertainment	0.0	1

Input VAT	135.2	

VAT payable (141 – 135.2)	5,8	1
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		16

Question 4 (b)

i) Computation of gain/loss on disposal of industrial building:

Cost of the industrial building:		
Architectural drawings	60,000	1
Land	220,000	1
Site clearance and preparation	30,000	1
Industrial building	530,000	1
Canteen building	170,000	1

	1,010,000	

Computation of disposal gain/loss:		
Sales proceeds	3,600,000	1
Allowable cost	(1,010,000)	!

	2,590,000	
Indexation allowance – (6/05 to 6/17):		
P1,010,000 x (1802.5 – 813.2)/ 813.2	(1,228,717)	

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Chargeable gain	1,361,283	8
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ii) Income tax implications arising from the disposal of the industrial building

Since the industrial building was sold for more than its original cost, the balancing charge will be equal to the capital allowances actually granted. 1

Total allowances allowable:		
2006 – 2017 (i.e. 12 years)		
Initial allowances 25% x P1,010,000	252,500	
Annual allowances P1,010,000 x 12 years x 2.5%	303,000	

	555,500	2
Less: notional allowances for 2013 & 2014		
2 years x 2.5% x P1,010,000	(50,500)	2
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Balancing charge	505,000	5
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iii) Computation of gain/loss on the disposal of shares

	P	
Sales proceeds (12,000 shares)	65,000	1
Cost		
○ Original shares – 10,000	40,000	
○ Rights issue – 2,000 at P6	12,000	

	(52,000)	1

Un-indexed gain	13,000	
Moveable allowance at 25%	(3,250)	1

Chargeable gain	9,750	3

		(16)

(TOTAL 32 MARKS)

Question 5 (a)

Calculation of the capital transfer tax due as a result of the death of Kefilwe:

Kitso

Gift of matrimonial house – exempt 1

Oratang

Flat in Gaborone	1,230,000		
Less mortgage loan balance	(250,000)		
	-----	980,000	2

Cash	400,000		
Less funeral expenses	(42,000)		

	358,000		

Oratang's share 50% 179,000 1

Household goods	80,000		
Personal effects	60,000		

	140,000		
Less exemption	(15,000)		

	125,000		

Oratang's share at 50% 62,500 2

	1,221,500		
Less: allowable deduction (W1)	(49,594)		1

Chargeable transfer	-----	1,171,906	

Mpho

Flat in Johannesburg – exempt as Mpho is not domiciled in Botswana, 2

Motoso

Share of cash	179,000	1
Share of household goods and personal effects	62,500	1
Life assurance proceeds	1,000,000	1

	1,241,500	
Less allowable deduction	(50,406)	1

Chargeable transfer	1,194,094	

Working 1 – P100,000 allowable deduction

Oratang – $1,221,500 \times 100,000 / 2,463,000 =$	49,594	0.5
Motoso – $1,241,500 \times 100,000 / 2,463,000 =$	50,406	<u>0.5</u>

	100,000	<u>14</u>

Question 5 (b)

Provision of a company car to Oratang who is not an employee will be taxed under close company legislation rules. 1

Kitso as a participator and relative to Oratang shall be deemed to have received a dividend. 1

The dividend is calculated on the basis of the benefit in kind for motor cars.

Benefit in kind on the car:

	P	
Cost	340,000	

First P200,000	10,000	
Next P140,000 x 15%	21,000	

	31,000	1

Tax on benefit at 7.5%	2,325	1

Maximum marks – 3 marks

(TOTAL: 17 MARKS)