



Botswana Institute of Chartered Accountants

Tax Compliance

Examination Paper

Date: 11 June 2019

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 2018

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

Rates of tax - 2018/2019 tax years

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

Capital gains – individuals

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

COST OF LIVING INDEX – JULY 1982 to OCTOBER 2018

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	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	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	1,715.4	1,714.5	1,721.0	1,735.9	1,737.8	1,741.5	1,744.3	1,747.1	1,751.7	1,755.2	1,758.7	1,760.5
2017	1,769.2	1,772.7	1,781.5	1,795.5	1,799.0	1,802.5	1,804.3	1,806.0	1,807.8	1,807.8	1,811.3	1,816.5
2018	1,823.5	1,828.8	1,832.3	1,856.8	1,858.6	1,858.6	1,860.3	1,860.3	1,860.3	1,872.6		

1.1 Tshegofatso, a sole practitioner and Chartered Accountant, provides tax work to a number of small to medium sized businesses. For the last two years, Tshegofatso has become aware that one of her clients has been deliberately understating his income on the tax return. Tshegofatso has never reported this to any authority.

Required

Explain to Tshegofatso the options that are available to Tshegofatso.

(Sub-total: 4 marks)

1.2 Kitso is a BICA Chartered Accountant who has just accepted Boitumelo as a new client. The engagement letter requires Kitso to complete tax returns and furnish them to BURS based on the information supplied by Boitumelo. Boitumelo will still be required to sign the tax returns.

Required

Explain to Kitso whether he will be acting in the capacity of an agent or a principal for Boitumelo in respect of her tax affairs and identify the level of risk associated with the engagement.

(Sub-total: 3 marks)

(Total: 7 marks)

2.1 The following information relates to the business transactions for Lebekwe, a sole trader, for the two months ended 31 May 2019. Lebekwe is registered for VAT and only makes standard rated taxable supplies.

All the figures below are stated exclusive of VAT.

	P
Sales to VAT registered customers	290,000
Sales to non-registered customers	128,000
Purchases from exempt suppliers	46,000
Purchases from standard rated suppliers	52,000
Purchases from non-registered individuals	17,000
Electricity	2,600
Accommodation/hotel expenses	21,000
Wages for staff	88,000
Sundry operating purchases from registered suppliers	14,000

Additional information relating to the period ended 31 May 2019:

1. Lebekwe sold a branch as a going concern in Palapye to a non-registered registered trader. The fair market value of the net assets of the business were as follows:

a. Fixtures and fittings	34,000
b. Inventories	188,000
c. Goodwill	38,000

Total	260,000

2. Lebekwe purchased a second hand delivery van from a non-registered individual for cash in the sum of P162,400.

Required

Calculate the VAT payable or refundable for the period ended 31 May 2019. Indicate with zero (0) where output or input VAT in nil.

(Sub-total: 11 marks)

- 2.2 Lebekwe, a Motswana, purchased a residential plot of land in Mochudi for P260,000. The seller was an individual who was not registered for VAT.

Required

Calculate the transfer duty payable, if any, and indicate who is required to pay the transfer duty.

(Sub-total:3 marks)

(Total: 14 marks)

3.1 Lenah made the following capital disposals during the tax year ended 30 June 2019:

Disposal of a Mercedes Benz car

Lenah sold her Mercedes Benz car for P250,000 on 1 March 2019. She had bought the car for P420,000 on 13 May 2015. The car was not used for business purposes.

Disposal of shares in a private company

Lenah sold 10,200 shares in a private company for P43,860 on 13 March 2019. She originally purchased 15,000 shares in November 2009 for P102,000. In May 2015, the company made a rights issue of 1 for 3 at a price of P5 per share.

Disposal of a warehouse

Lenah purchased a warehouse in Phakalane in August 2008 for P480,000. In July 2010, Lenah constructed a wall fence around the warehouse at a cost of P72,000. In October 2018, she sold the warehouse for P1.75 million. Additionally, she incurred legal fees of P26,300 on the disposal of the warehouse.

Additional information:

Lenah also received the following income during the tax year ended 30 June 2019:

- Rental income received from the letting of the warehouse amounting to P112,000 gross. The tenant had deducted withholding tax at source of P11,200.
- Bank deposit interest of P18,800. The bank correctly deducted withholding tax of P1,100.
- Lenah provided human resource consultancy for various companies. Her income from consultancy work amounted to P12,600.

Required

- a) Calculate the capital gains tax arising on the disposal of the:
 - Mercedes Benz car **(3 marks)**
 - Shares in the private company, and **(3 marks)**
 - Warehouse **(5 marks)**
 - **(3 marks)**
 - b) Calculate the taxable income for Lenah for the year ended 30 June 2019. **(3 marks)**
 - c) Calculate Lenah's total tax liabilities for the tax year ended 30 June 2019. **(5 marks)**
- (Sub-total: 19 marks)**

- 3.2 On 11 May 2019, Mr Montshiwa, died at the age of 77. He provided for the following distribution of his assets by the deed of his will:

	Market Value P
<i>To his wife: Mrs Montshiwa:</i>	
Principal private residence with household contents	2,800,000
Toyota Land cruiser	650,000
Cash	500,000
<i>To Granddaughter – Kefilwe:</i>	
Flat in Block 3	1,200,000
Cash	75,000

The purpose of this bequest was to provide financial support whilst Kefilwe was full time student in secondary school and university. Kefilwe is aged 15 years.

To Grandson – Lesego

Lesego is a Motswana and also a permanent resident of South Africa. He is married to a South African and has made South Africa his permanent home.

A flat in Durban	1,900,000
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To his son – Thato

Jeep station wagon	330,000
Cattle post	490,000
Cash	200,000

Required

Calculate the capital transfer tax (CTT) liabilities payable by each done arising on the death of Mr Montshiwa. **(Sub-total: 10 marks)**

(Total: 29 marks)

4.1 Bokone Ltd is a company incorporated in Botswana. Its major shareholder is a company resident in Mauritius.

The company is in the retail trade and operates supermarkets in the major towns of Botswana. The company prepares its financial statements to 31 May each year. The following are the financial results for the year ended 31 May 2019:

	Note	P	P
Turnover			14,823,700
Cost of sales	1		(8,092,000)
			<hr/>
Gross profit			6,731,700
<i>Less expenditure:</i>			
Distribution costs	2	2,620,878	
Administration expenses	3	3,536,000	
Finance costs	4	86,900	(6,243,778)
		<hr/>	<hr/>
Loss from trading activities			487,922
Other income			
Profit on disposal of assets			65,700
Rental income (withholding tax deducted P42,000)			420,000
Dividend received (withholding tax deducted P4,200)			56,000
Sundry income (all taxable)			38,500
			<hr/>
Profit before taxation			1,068,122
			<hr/>

The following additional information is available in connection with these financial results:

- Cost of sales includes the following expenses:

	P
Stock pilferage and losses	144,000
General provision for stock losses	320,000
- Marketing costs include the following:

	P
Advertising & promotions	112,000
Salaries and wages	910,000
Motor vehicle expenses	233,000
Traffic fines	36,000
Customer entertainment	86,000
Depreciation	280,000
- Administration expenses include the following:

	P
Salaries and wages	1,380,000
Depreciation	255,000
Donation to approved sports club	30,000
Donation to political party	20,000
Subscription to Trade Association	10,000

4. Finance costs include the following:	P
Exchange loss incurred on purchases	17,100
Interest on bank overdraft	26,200
Interest on loan to purchase plant	48,800

The following information is available in connection with the company's assets:

Asset	Date of acquisition	Original cost P
Shop buildings	11 July 2014	2,350,000
Plant and equipment	3 August 2015	1,450,000
Delivery vans (3)	21 April 2016	1,100,000
Motor cars (saloons – 4)	7 May 2017	820,000
Computers	19 May 2018	160,000
Computer software	20 August 2018	50,000
Delivery vans (2)	5 March 2019	810,000

The plant and equipment are subject to a capital allowance rate of 15%.

One motor car, which was purchased for P370,000, was sold during the year for P320,000

At the beginning of the accounting period, Bokone Ltd had estimated that the taxable income for the year ended 31 May 2019 were P900,000. Accordingly, Bokone Ltd paid its self-assessment instalments based on the estimated income.

Required:

- (a) Calculate the capital allowances to be claimed by Bokone Ltd for the year ended 31 May 2019. Your answer should include a balancing adjustment where appropriate. **(9 marks)**
- (b) Calculate the taxable income for Bokone Ltd for the year ended 31 May 2019. **(12 marks)**
- (c) Calculate the tax payable by Bokone Ltd for the year to 31 May 2019 and the quarterly instalment that was duly payable. **(2 marks)**
- (d) Calculate the top up or final payment due and state when the final instalment is due. **(2 marks)**

(Total: 25 marks)

5.1 Peter Kabelo is 45 years old and is employed as an architect during the tax year 2019. The following information is available in respect of his earnings and outflows from employment for the tax year ended 30 June 2019:

	P
Basic salary	456,000
Bonus	76,000
Commuted leave pay	30,400
Company contribution to house utilities	9,500
Company paid for security services	48,000
Employee's contribution to approved pension	45,600
Employer's contribution to approved pension	45,600
Employee's contribution to house rent	24,000
Professional subscriptions paid by employer	5,400
Employer's medical aid contribution	12,600

Notes:

1. The company provided rented accommodation to Peter. The area of the house was 240 square meters and the annual rental for the house paid by the employer was P120,000.
2. Peter was paid a car allowance of 10% of his basic salary.
3. Peter also received some additional income during the tax year as follows:
 - a. Income from part-time lecturing of P24,000
 - b. Interest from Botswana Building Society investment account of P15,800.
 - c. Income tax refund from the tax year 2018 of P5,600.

Required

Calculate the taxable income and tax payable for Peter Kabelo for the year ended 30 June 2019. Your answer must separately show the taxable employment income.

Indicate with a zero where an item is not taxable. (Sub-total: 12 marks)

5.2 Mpho, Thabo and Neo are in partnership sharing profits and losses in the ratio of 4:3:2 respectively after allowing for partnership salaries of P250,000 per annum each for Mpho and Thabo. Neo is entitled to an annual salary of P192,000. The partnership accounts are prepared annually to 31 March.

The partnership's income statement for the year ended 31 March 2019 was as follows:

	Note	P	P
Gross profit			2,334,400
Less:			
Wages and salaries	1	1,225,000	
Rent and rates	2	210,000	
Repairs and renewals	3	87,500	
Electricity	4	41,500	
Legal expenses	5	34,500	
Motor car running expenses		52,600	
Depreciation		57,000	
Miscellaneous expenses	6	186,000	

			(1,894,100)

Net profit			440,300

Notes to the income statement

1. Wages and salaries

Wages and salaries included the salaries paid to the partners during the year.

2. Rent and rates

30% of the expenditure on rent and rates relates to payments made for houses occupied by Mpho and Thabo.

3 Repairs and renewals

The charge in the income statement includes P35,000 incurred on replacing machinery in the factory. The old machinery was sold for P12,500, and had an income tax brought forward value of P18,000.

4 Electricity

The charge for electricity is made up as follows:

	P
Partners' houses (equal split between Mpho and Thabo) 8,500	
Administrative offices	10,300
Factory	22,700

Total charge	41,500

5 Legal expenses

These are made up of the following:

	P
Appeal against previous year's income tax assessment	10,000
Pursuing a defaulting debtor (a former employee)	15,850
Employment contracts for staff	8,650

34,500

6 Miscellaneous expenses

The miscellaneous expenses included the following:

	P
Written off loan to former employee	35,000
Donation to political organisation	20,000
Donation to approved medical facility	30,000

7 Additional information

The capital allowances on assets held by the partnership was correctly calculated as P160,000 for the year ended 31 March 2019. This figure does not include the balancing adjustment arising in **Note 3** above.

Required

- (a) Calculate the partnership's tax adjusted business profit for the year ended 31 March 2019 before the division between the partners. **(10 marks)**
- (b) Calculate the amount of business profits on which each partner will be assessed for the year ended 31 March 2019. **(3 marks)**

(Sub-total = 13 marks)

(Total: 25 marks)