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# TAX COMPLIANCE

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

**MARKS BREAKDOWN:**

Question 1	7 marks
Question 2	18 marks
Question 3	28 marks
Question 4	24 marks
Question 5	23 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 2018/19 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**

## TAXATION TABLES FOR BUSINESS TAX- 2018/19

### Capital allowances:

	Annual allowance
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%
Off-the-shelf computer software	100%

### Industrial buildings:

- Initial allowance	25%
- Annual allowance	2.5%
Commercial Building	2.5%

### Company Tax:

- Non-manufacturing companies	22%
- Manufacturing companies	15%
- Non-resident companies	30%

### Capital gains tax -

Companies Taxable at the company's rate

Table I - Income tax rates for Resident individuals –

Taxable income				tax payable
				% on excess
0	-	36 000	0	
36 000	-	72 000	0	+ 5% on excess over P36,000
72 000	-	108 000	1,800	+ 12.5% on excess over P72,000
108 000	-	144 000	6,300	+ 18.75% on excess over P108,000
Over 144 000			13,050	+ 25% on excess over P144,000

Table II - Tax rates for Non-resident individuals, trusts and estates of deceased persons

Taxable income				tax payable
				% on excess
0	-	72 000		5%
72 000	-	108 000	3,600	+ 12.5% on excess over P72,000
108 000	-	144 000	8,100	+ 18.75% on excess over P108,000
Over 144 000			14,850	+ 25% on excess over P144,000

**TABLE IV -Applies to Net Aggregate Gains of Individuals**

Taxable gain			tax payable	
			%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

**`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	P2000
P100 001 - P150 000	P7 500	P3 000
P150 000 - P200 000	P10 000	P4000

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

**Individual's housing benefit:**

**Ifrated:**

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

**Ifnot rated:**

Gross floor area x P250 per sq metre x 8% on a standard quality building. Gross floor area x P170 per sq metre x 8% on a poor quality 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 prorated 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

**COST OF LIVING INDEX- JULY 1982 to MARCH 2019:**

<b>YEAR</b>	<i>Jan</i>	<i>Feb</i>	<i>Mar</i>	<i>Apr</i>	<i>May</i>	<i>Jun</i>	<i>Jul</i>	<i>Aug</i>	<i>Sep</i>	<i>Oct</i>	<i>Nov</i>	<i>Dec</i>
<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	1653.1	1655.9	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	1704,3	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	1804.3	1806.0	1807.8	1807.8	1811.3	1816.5
<b>2018</b>	1823.5	1828.8	1832.3	1856.8	1858.8	1858.6	1860.3	1860.3	1860.3	1872.6	1879.6	1881.3
<b>2019</b>	1887.0	1890.8	1892.6									
<b>2020</b>												

## Question 1

You are an ICAEW Chartered Accountant working in practice. Your manager is preparing materials for a staff training course about ethical issues and money laundering. Your manager has asked you to write the section explaining what is money laundering and the procedures that a company **may** employ to prevent money laundering Act in Botswana.

### Requirement

Briefly explain what is meant by money laundering and the procedures that businesses may use to prevent money laundering.

**Total: 7 marks**

## Question 2

2.1 Naledi Ltd is a VAT registered trader and has a one-month tax period. Naledi Ltd is a general dealer involved in the buying and selling construction equipment.

The following are transactions relate to Naledi Ltd for the month of 30 November 2019:

	P
Local standard rated sales	302,400
Export sales	168,000
Exempt sales	75,040
Local standard rated sales returns	(19,700)
	<hr/>
	525,740
	=====
Local standard rated purchases for the tax period	307,200
Local exempt purchases	34,720
Imported purchases	40,880
Imported services	28,000
	<hr/>
	410,800
	=====
Operating expenses:	
Employees hotel expenses (from registered traders)	17,472
Office expenses (from registered traders)	20,400
Office rent (from unregistered trader)	12,320
	<hr/>
	50,192
	=====

**Additional information relating to transactions that occurred during the tax period ended 30 November 2019:**

- Naledi Ltd had purchased two second hand motor vehicles from Mogoditshane Motors Ltd, a delivery van for P280,000 and a car for the sales team costing P179,200. Mogoditshane Motors Ltd is registered for VAT.
- The sales returns related wholly to sales that were made during the tax period.
- A bad debt of P26,880 previously written off for VAT was recovered during November 2019.

All amounts are stated inclusive of VAT, where applicable.

**Required:**

Calculate the VAT payable by, or refundable to Naledi Ltd for November 2019. Clearly indicate any input VAT that is not recoverable. Your answer must be rounded to the nearest Pula. **(15 marks)**

- 2.2 Mr Patel, a non-citizen of Botswana, purchased a piece of land for P800,000 on the outskirts of Gaborone. The land is classified as agricultural land and the seller was a Motswana..

**Requirement**

Calculate the transfer duty due on the purchase of agricultural land by Mr Patel. Also state who is liable to pay the transfer duty tax. **(3 marks)**

**Total: 18 marks**

**Question 3**

**3.1** Mr Lesetsedi has been in business as a sole trader for many years preparing accounts to 30 June annually. On 1 March 2019 he sold his business. The break-down of the sales price was as follows:

<b>Acquisition</b>	<b>Description</b>	<b>Cost P</b>	<b>Sale proceeds P</b>
July 2010	Land	150.000	280.000
March 2011	Commercial building	720.000	1.300.000
May 2014	Extension to the building	330.000	670.000
June 2017	Heavy plant & machinery	560.000	190.000
Various	Inventories	280.000	340.000
	Goodwill		600.000
			-----
	Sales proceeds		3.380.000
			-----

In addition, Mr Lesetsedi sold off some investments in two companies. The details of the investments were as follows:

i) Shares in Si Ltd

<b>Date</b>	<b>Narration</b>	<b>No. of shares</b>	<b>P</b>
May 2010	Purchase	20.000	100.000
June 2015	Rights issue 2 for 5	8.000	64.000
June 2019	Sale	(24.000)	(360.000)

ii) Shares in Lemon Ltd

<b>Date</b>	<b>Narration</b>	<b>No. of shares</b>	<b>P</b>
July 2012	Purchase	10.000	100.000
Jan 2019	Sale	(10.000)	60.000

Mr Lesetsedi had a taxable income of P330.000 for the tax year ended 30 June 2019. This taxable income does not include any of the taxable income, if any, from the disposals above.

### **Requirements**

- i) Calculate the capital gains or losses arising from the disposals of the net assets and shares. **(10 marks)**
- ii) Calculate the total taxable income for Mr Lesetsedi for the tax year ended 30 June 2019. **(6 marks)**
- iii) Calculate the total tax liabilities for Mr Lesetsedi for the tax year ended 30 June 2019. **(4 marks)**



**3.2** Mr Monageng, died in Gaborone on 1 November 2019. He is survived by a wife and two children named Warona (18 years) and Mooki (13 years).

Mr Monageng's personal statement of financial position at the date of his death is detailed below:

	P
Main house	1.500.000
Household chattels	120.000
Undeveloped land in Gabs north	300.000
Cattle post with 250 cattle	1.400.000
Semi-detached house in G-West	840.000
	-----
	4.460.000
	-----

***Additional information***

Mr Monageng left a will in which his property was distributed as follows:

1. To his wife, Mrs Monageng, the main house and the household contents and chattels therein.
2. The cattle post and the all the cattle was bequeathed to Mrs Monageng and his two sons, jointly.
3. The undeveloped land in Gabs north to Warona.
4. The semi-detached house in G-West was bequeathed to Mooki.
5. The legal expenses for effecting the transfer of land and buildings was 5% of the market value.

**Requirement:**

Compute the chargeable transfers arising on the donees following the death of Mr Monageng following his death on 1 November 2019. Note: calculation of capital transfer tax liabilities are not required. (8 marks)

**(Total: 28 marks)**

#### Question 4

Morula Ltd (Morula), a Botswana resident company, is a trading company based in Gaborone. Morula's profit and loss account for the year ended 31 October 2019 is as follows:

	Note	P'000	P'000
<b>Income:</b>			
Gross profit		4.120	
Interest income (gross)	1	86	
Rental income (gross)	2	480	
		<hr/>	4.686
<b>Expenses:</b>			
Directors' fees		660	
Staff salaries and benefits	3	2.400	
Rent and rates		390	
Interest expense	4	145	
Depreciation		338	
Employer's contributions to ASF		180	
Repairs and maintenance	5	230	
Loss on fixed asset disposal	6	96	
Other allowable business expenses		420	(2.916)
		<hr/>	<hr/>
Net profit for the year			1.770
Less provision for tax	7		(420)
			<hr/>
Profit after tax			1.350
			-----

The notes below relate to the extract above:

#### Notes:

1	Interest income consists of:	P'000
	Interest subscription shares from BBS	60
	Loan interest from a director	26

The director is not a participator of Morula Ltd. The loan was advanced to him in April 2018 at an interest of rate 7% p.a. The official interest rate is 12% p.a.

2 Rental income is received from the company's commercial property in Gaborone. Withholding tax of P24.000 was appropriately deducted.

3 Staff costs included the following payments made on behalf of its Chief Executive Officer (CEO):

		P'000
	PAYE's paid on behalf of the CEO	114
	(The company paid the CEO's salaries without deducting)	
	Contribution to an unapproved pension	56

4 Interest expense relates to the following:

	P'000
On bank loan used to purchase non-current assets	100
On loan used to pay dividends	45
	-----
	145
	-----

5 Repairs and maintenance

Repairs included P37.000 incurred on the acquisition of a second hand machine to make the machine operational.

6 Legal fees included in business expenses were incurred on the following:

	P'000
Objection of a tax assessment	15
Defending allegation of supplying faulty goods	25
	-----
	40
	-----

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

On 1 October 2019, Morula sold a Mercedes Benz car for P460.000. This car was acquired in July 2016 for P720.000. The Benz was used by the Chief Executive Officer who uses it 40% for business purposes.

A computer acquired in June 2018 for P25.000 was sold to an employee for P8.000.

7 Morula had estimated that its tax payable for the year ended 31 October 2019 would be P420.000. Accordingly, it paid the required quarterly instalments during the year. Morula will settle any outstanding balance at the due date.

8 Non-current assets

An extract of Morula's non-current assets movements for the year ended 31 October 2019 is as follows:

	Cost b/f	Additions during year bal b/f	Disposal during year	Allowances granted bal b/f
	P'000	P'000	P'000	P'000
Commercial building				
• Land	150	-	-	0
• Building	950	-	-	450
Fixtures & fittings	120	-	-	108
Motor cars	720	1.280	(720)	?
Delivery van	2.450	-	-	1.225
Computers	110	-	(25)	65

The motor cars acquired during the year was for the CEO and CFO. The car for

the CEO cost P800.000 and that for the CFO was P480. The private use for both cars was 40%.

### Requirements

- (i) Compute the capital allowances and any balancing adjustments for Morula Ltd for the year ended 31 October 2019. **(10 marks)**
- (ii) Compute the taxable income and income tax payable for Morula Ltd in respect of the year ended 31 October 2019. **(10 marks)**
- (c) Compute the final tax payable under the self-assessment system for Morula Ltd for the year ended 31 October 2019. Your answer must include the interest payable, if any. **(4 marks)**

**(Total: 24 marks)**

### Question 5

5.1 Monei, a Motswana, is an employee of Tsabong Ltd earning P480.000 p.a. as her basic salary for the tax year 2018/19. In addition she is also entitled to the following:

- The employer contributes 20% of Monei's basic salary to an approved pension scheme. Monei contributes a further 20% of her basic salary to the approved pension scheme.
- A company car with a cost of P450.000 which was provided for both business (60%) and private use (40%) in January 2018. Monei pays for all of her own petrol.
- Monei was provided with accommodation by her employer. The employer rented the house for P180.000 per annum. The annual rateable value of the property was P500.000 and its current market value was P1.800.000 at 1 July 2018.
- The employer is also responsible for paying for the security services at the residence of Monei. The monthly cost of the security services was P3.000.
- The employer pays for a garden boy and maid to clean the house at a total cost of P2,500 per month.
- The PAYE deducted from Monei's salary was in 2018/19 was P97.050.
- In December 2018, Monei received a Christmas bonus of P33.750 cash. The employer decided to be responsible for the tax on the bonus. The appropriate amount tax was paid to BURS but is not included in the PAYE deducted above.
- The employer bought four suits for Monei at a total cost of P20,000. The employer believed it was necessary for Monei's job to look smart.
- In April 2019, Monei was provided with a fully paid holiday to Mauritius at a cost of P52.000 to the employer.

- Monei was paid a non-refundable entertainment allowance of P36.000 per annum. During the tax year ended 30 June 2019. Monei used P20.000 on entertaining business clients on behalf of her employer.

### **Requirement**

Calculate Monei's employment income for the tax year 2018/19. **(10 marks)**

**5.2** Monei had other sources of income as detailed below:

- On 1 October 2018. Monei was admitted as a partner to a sole trade business run by her friend. Neo. She contributed capital of P350.000. The capital of the sole trade was valued at P850.000 at 1 October 2018. The Partnership agreement provided for the following:
  - Interest on capital – 10% per annum for each partner
  - Salary for Neo – P120.000 per annum
  - Share of profit or loss: Neo 75% and Monei 25%.

The business made a taxable income of P520.000 for the year ended 30 June 2019.

- Bank deposit interest earned during the tax year 2019 – P13.000 gross.
- Rental income of P120.000 gross. The withholding tax was correctly deducted and paid to BURS.

### **Requirements**

- i) Calculate Monei's share of the taxable income from the partnership for the year ended 30 June 2019. **(5 marks)**
- ii) Calculate Monei's total taxable income for the year ended 30 June 2019. **(4 marks)**
- iii) Calculate Monei's tax payable or refund for the tax year ended 30 June 2019. **(4 marks)**

**(Total: 23 marks)**