



Botswana Institute of Chartered Accountants

Business Planning: Taxation

Date: 08 September 2020

Time: 14:00 pm – 16:30 pm

Time allowed: 2 hours 30 minutes

Instructions to Candidates

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

1. Ensure your candidate details are on the front of your answer booklet.
2. Answer each question in black ballpoint 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.
5. When the assessment is declared closed, you must stop writing immediately. If you continue to write (even completing your candidate details on a continuation booklet), it will be classed as misconduct

Assume that the Finance Act 2019/20 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

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

Rates of tax from 2019/20 tax years

Resident companies

	On taxable income
Standard rate	22%
Manufacturing company rate	15%

Non-resident companies

Standard rate	30%
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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 18 000
P72,000 –	P108,000	P2,700 + 12.5% of excess over 72 000
P108,000 –	P144,000	P7,200 + 18.75% of excess over 108 000
Over	P144,000	P13,950 + 25% of excess over 120 000

Capital gains – companies

Net aggregate gains are taxable at the company rates of tax.

Tax on Foreign dividend **15%**

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 on plant & machinery

Furniture and fittings	10%
Office equipment and machinery	15%
Other industrial (including farming) plant & machinery used directly in manufacture or production	15%
Aircraft and motorised road vehicles	25%
Heavy civil engineering plant and machinery used directly in construction	25%
Other self--propelled portable plant or machinery used directly in manufacture or production	25%
Computer hardware	25%
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%

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% for a standard 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 pro - rated 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

Capital value of an annuity

$$\text{Capital value} = A \times \left[\frac{1 - (1/(1+r)^N)}{r} \right]$$

Where - A is the annuity payable; r = rate of return
 N = number of years over which the annuity is payable.

COST OF LIVING INDEX – JULY 1982 to JUNE 2019

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	1165.0	1172.8	1176.0	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	1858.6	1858.6	1860.3	1860.3	1860.3	1872.6	1879.6	1881.3
2019	1887.0	1890.8	1892.6	1903.9	1905.8	1909.6						

QUESTION ONE

You are a BICA Chartered Accountant working in practice. Chobe Ltd and its Chief Executive Officer, David Musi, are clients of your firm.

Background information

Chobe Ltd is a Botswana resident trading company which is listed on the Botswana Stock Exchange. The company owns 60% of the ordinary share capital of Wakanda Plc, a company that is incorporated in a foreign country. Wakanda Plc is resident of the foreign country for tax purposes. Chobe Ltd also has a branch in a neighbouring country and has made some loans to a company in the same neighbouring country (**Exhibit 2**).

There is no tax treaty agreement between Botswana and the country in which Wakanda Plc operates or resides.

The directors of Chobe Ltd are in the process of finalising the company's tax return for the year ended 31 March 2020 and have sent your firm details of the draft taxable income and some outstanding matters that need to be addressed (**Exhibit 1**). The outstanding matters relate to the transactions that Chobe Ltd entered in to with its subsidiary, Wakanda Plc, and other foreign income during the year ended 31 March 2020. The directors are also concerned about whether the transactions with Wakanda would be subject to any penalties.

David Musi is in the process of preparing the tax return for the tax year 2019/20. He has also requested your firm to assist him with the computation of his total tax payable (**Exhibit 3**).

Requirements:

- 1.1 Briefly discuss any four (4) general principles contained in the Organisation for Economic Cooperation and Development's (OECD's) model double taxation convention which gives guidance on how countries may avoid double taxation of income.
- 1.2 Explain the taxation implications/ consequences for Chobe Ltd and determine whether any anti-avoidance/ transfer pricing legislation applies to (**Exhibit 1**):
 - The loan made to Wakanda plc.
 - Export of goods to Wakanda plc at a transfer price equal to the company's full cost of production.

- 1.3 Calculate the final taxable income and company income tax payable for Chobe Ltd for the tax year 2019/20 after taking into account the transactions in **Exhibit 1 and Exhibit 2**.
- 1.4 Calculate the total taxable income and tax payable for David Musi for the tax year 2019/20 (**Exhibit 3**).

Total: 40 marks

Exhibit 1: Transactions between Chobe Ltd and Wakanda plc

The following information relates to the tax year 2019/20:

Chobe's Ltd's tax adjusted trading income from Botswana operations for the year ended 31 March 2020 was P11,500,000. This profit figure is after making the relevant adjustments for tax purposes but before making any adjustments for tax purposes in relation to the following transactions which took place between Chobe Ltd and Wakanda Plc during the year:

- (1) On 1 January 2018, Chobe plc made a loan of P2,000,000 to Wakanda plc, at an interest rate of 5% per annum. The loan is repayable in 5 years and has remained outstanding. The commercial rate of interest on loans of this type in Botswana is 15% per annum.
- (2) Chobe Ltd regularly exports goods to Wakanda plc which are used by Wakanda plc as inputs in one of its production processes. All intra- company transfers of goods are made at a transfer price equal to the full cost of production of the supplying company. During the year ended 31 March 2020, Chobe plc exported goods to Wakanda plc at a transfer price of P1,200,000 being the full production cost of the goods to Chobe Ltd. The goods were included at this amount in sales revenue in the financial statements of Chobe Ltd. Chobe Ltd sells these goods on the Botswana market at full production cost plus a mark-up of 40%.
- (3) Chobe Ltd received gross dividends of P600,000 from Wakanda plc on 31 March 2020. The dividends have not yet been accounted for by Chobe plc in its financial statements.

Extract of Wakanda's financial statements

The summarised results of Wakanda plc for the year ended 31 March 2020 were as follows:

	P	P
Trading profit before interest and tax		3,500,000
Company income tax		<u>(980,000)</u>
Distributable profits		2,520,000
Dividends paid		
Net	880,000	
Withholding tax	120,000	
	-----	1,000,000

Retained profits		1 520 000

Exhibit 2: Foreign income from the neighbouring country

Chobe Ltd received the following income from the neighbouring country which have not been recognized in the tax adjusted trading income:

1. Received a net remittance of P235,000 from the foreign branch. The remittance was paid out of profits that was subject to company tax at 20%.
2. Received a net interest of P93,500 on the loan made to a foreign company. Withholding tax of 15% was deducted in the foreign country.

Exhibit 3: Chief Executive Officer's remuneration and his other income

The Chief Executive Officer of Chobe Ltd, David Musi, is resident in Botswana for tax purposes. Musi earns an annual basic salary of P480,000. PAYE of P97,050 was deducted at source and paid to Botswana Unified Revenue Services. He is accommodated in a company house which has a market value of P650,000 and rateable value of P340,000 at 1 July 2019 and 30 June 2020, respectively. The company pays incidental expenses in connection with his living accommodation of P3,500 per month.

He is provided with a 3,000 cc petrol driven company owned motor car for both business and private use. The company bought the motor car at a cost of P560,000 on 1 January 2015. Out of the 20,000 kilometres that he drove in the tax year 2019/20, 12,000 kilometres were for business purposes. The company pays him a fuel allowance of P2,500 per month. Other payments made by the company on his behalf in the tax year 2019/20 were as follows:

- monthly life insurance premiums of P1,200
- annual holiday package of P60,000. Musi was paid the P60,000 at the beginning of December 2019. He spent P52,000 on the holiday and was not required to retire the balance.
- annual professional subscriptions of P6,000 and
- annual golf club subscriptions of P11,300.

Musi pays 5% of his annual salary to a provident fund and he pays a further 10% of his annual basic salary to an employer's approved fund. He made donations of P5,500 to approved public health organisations in the tax year 2019/20.

Musi has a shareholding of 10% in Wakanda plc. In the year ended 31 March 2020, he received net dividends of P88,000 from a Wakanda Plc. Musi also holds a fixed deposit account in the foreign country in which Wakanda Plc operates, from which he received net fixed deposit interest of P21,000 during the tax year 2019/20. Withholding tax amounting to P9,000 on the fixed deposit interest was paid at source to the taxation authorities in the foreign country.

Question Two

You are a BICA Chartered Accountant working in practice and report to Gladys Seretse, a tax partner. Gladys just had her first meeting with a potential client, Bogolo, to discuss the tax implications of her business and the possibility of your firm becoming the tax adviser for Bogolo. Extracts from the meeting and an email from Gladys are included in the Exhibits.

Background information:

Bogolo completed her contract with a big retail company on 31 July 2018. She decided to start her own business on 1 October 2018. She was not sure whether to start her business as a sole trader or as a limited company. She engaged a business/tax consultant who advised her to initially start as a sole trader as the tax compliance would be much simpler and the effective tax rate may be lower.

Bogolo prepares her accounts to 30 June annually and has no other source of income apart from her business.

In the first accounting period to 30 June 2019, Bogolo's business made a taxable income of P740,000. However, in the year ended 30 June 2020, the forecast tax adjusted trading profit, before any capital allowances, is P1,800,000 which is far much more than was expected at the commencement of the business.

Bogolo operates from a property which she owned. She had purchased the property in May 2010 for P380,000. Initially, the property was lent out for business use and Bogolo claimed the appropriate

capital allowances. Furthermore, she had acquired other assets for the business and her statement of affairs at 1 July 2020 is provided in **Exhibit 2**.

In view of the current significant growth of the business, Bogolo is considering whether she should convert her business into a limited liability company and seeks advice on the following issues:

1. Bogolo would
like to know if she would have incurred less tax liability had she started the business as a limited company instead of as a sole trader.
2. Bogolo would
like to know the tax implications of transferring her personal property and business to a limited company.

Requirements:

- 2.1 Prepare brief notes for your tax partner explaining the ethical considerations and actions that the firm would take in order for you to become tax advisers for Bogolo.
- 2.2 Based on appropriate calculations, advise Bogolo whether she should trade as a sole trader or as a limited liability company. Your answer must clearly show which option would result in higher disposable income for Bogolo. Your calculations and advise should be based on the information contained in **Exhibit 1**.
- 2.3 Illustrate the income tax and capital gains tax implications for Bogolo if she transferred the property and business to a limited company on 1 July 2020 (**Exhibit 2**). Calculation of tax liabilities is not required. Note that this part of the question is not dependent on your answer in 2.2 above.

Total marks: 35

Assume the following:

- The transfer of the property and business to a limited company will take place on 1 July 2020.
- The July 2020 NCOLI is 1910.2 (estimated).

Exhibit 1: Email from Gladys your tax partner

To: The BICA Chartered Accountant
From: Gladys Seretse
Re: Bogolo's tax issues

Following my meeting with Bogolo, I would like you to prepare some brief notes responding to the issues raised by Bogolo as set out below:

1. Explain to Bogolo the ethical considerations and actions that we should take in order to become her tax advisors.
2. Advise Bogolo on whether she should continue to operate as a sole trader or as a limited liability. Your advice should be based on the tax savings that would arise from these two options based on the taxable income for the year ended 30 June 2020. You may assume that the company will pay Bogolo a salary of P900,000 per annum and a dividend equal to the post tax income. Your calculations must be based on the estimated taxable income of P1,800,000.

Exhibit 2: Bogolo's Statement of Affairs as at 1 July 2020

Bogolo's personal car – Cost P360,000 in September 2016 and valued at P220,000 on 1 October 2018 when it was brought into the business. Bogolo and BURS have agreed that the car is used 60% for business purposes. The car was valued at P198,000 at 1 July 2020.

Two delivery vans purchased for P350,000 each on 1 January 2020. The delivery vans were valued at P305,000 each at 1 July 2020. The vans are used by two of Bogolo's sales officer, the private use is 30%.

Fixtures and fittings purchased on 15 October 2018 for P60,000. Valuation at 1 July 2020, P12,000.

Preloaded computers purchased on 10 October 2019 for P45,000. Valuation at 1 July 2020 was P21,000.

Computer accounting packages purchased on 28 October 2019 for P80,000. Valuation at 1 July 2020 was P65,000.

Goodwill was valued at P330,000 at 1 July 2020.

Bogolo's personal property is valued at P1,400,000. Refer to the introduction for the details.

Question Three

You are a BICA Chartered Accountant working for Tebogo & Co, a firm of BICA Chartered Accountants, which acts as tax advisers to Apex Ltd. You have recently been seconded to the finance department of Apex Ltd for six months. You report to the financial controller of Apex Ltd, Mpho Dintsi.

Apex Ltd is a VAT registered company engaged in engineering designing and construction. It accounts for VAT on a monthly basis.

Apex Ltd prepares its accounts to 30 April annually.

Mpho has sent you the following email relating to the year ended 30 April 2020:

Email

To: Seconded Tax Adviser

From: Mpho Dintsi

Date: 28 May 2020

Subject: Assistance in the preparation of the 2019/20 income tax return and VAT return for the May 2020.

We are in the process of finalising the income tax return for tax year 2019/20. We have a few transactions that have not yet been concluded because the person in charge is uncertain of the appropriate tax treatments. Your first task is to explain to me the appropriate tax treatments and compute the final taxable income and tax payable under the self-assessment system.

I have provided you with the transactions (**Exhibit 1**) that you need to assist me conclude the preparation of the tax return. The draft taxable income of Apex Ltd for the year ended 30 April 2020, before taking into account the transactions in the Exhibit, is P14,556,000. At the beginning of the year, Apex Ltd had estimated that its taxable income would be P15,200,000 and the self-assessment instalments were paid based on this estimate.

We are also in the process of finalising the VAT return for May 2020 and there are certain transactions that I seek your advice on. The transactions are shown in **Exhibit 2**.

Requirements

- 3.1 Compute the final taxable income for Apex Ltd for the year ended 30 April 2020 after taking into account the transactions in **Exhibit 1**. Wherever relevant, you must assume that all the beneficial claims wherever relevant were elected and applied appropriately.
- 3.2 Based on your final taxable income in 3.1 above, compute the final tax payable for Apex Ltd fye 30 April 2020.
- 3.3 Briefly explain to the Financial Controller, with illustrations, how the items noted in **Exhibit 2** will be accounted for under VAT.

Total Marks : 25

Exhibit 1 – Pending transactions

The following transactions relating to the year ended 30 April 2020 have not been included or adjusted for in arriving at the draft taxable income unless otherwise stated.

1. Customers returned faulty goods in the sum of P220,000 which were sold as scrap for P35,000.
2. The allowance for receivables has been determined at the year-end as P580,000. The previous year's allowance was P650,000.
3. The accrued gratuity for employees at the year-end was calculated as P1,750,000. The breakdown was as follows:

	P
Accrued gratuity at 1 May 2019	2,250,000
Provision for the year charged in profit or loss	1,530,000
Less gratuities paid during the year	(2,030,000)

Balance carried forward at 30 April 2020	1,750,000

4. Interest expense of P58,000 was paid on loan from a majority shareholder. The loan was acquired on commercial terms and was used for business capital expenditure. The interest was charged in the profit and loss account.
5. In January 2012, Apex Ltd sold a property for P1,200,000 and realised a gain of P220,000. The property had originally cost P500,000. A replacement property was acquired in May 2012 for P600,000.

On 13 June 2019, Apex Ltd sold the replacement property for P1,400,000. On 1 September 2019, Apex Ltd entered into a 20 year lease in a new mall and immediately paid a lease premium of P300,000. Rent was agreed at P10,000 per month payable in arrears on a quarterly basis. The rent was duly paid.

6. In August 2019, heavy construction plant/equipment were sold, details as below:

	Cost	ITV b/f	Proceeds
	P	P	P
Plant	520,000	130,000	350,000
Equipment	490,000	294,000	240,000

In September 2019, the sold plant was replaced at cost of P650,000. The applicable capital allowance rate for this plant was 25%. No capital allowances, if any, have yet been computed on the replacement plant.

A Tipper truck was involved in accident on 15 March 2020. It had been insured and the insurance company replaced the Tipper truck with another Tipper truck. The new Tipper truck cost P480,000. The damaged Tipper truck's cost of P550,000 had been fully written off for tax

purposes prior to the accident. No capital allowances, if any, have yet been computed on the new Tipper truck.

7. Apex Ltd sold two of its investments in private companies as follows:

- a. 10,000 shares for P360,000 on 1 March 2020 in Ocean Ltd. The shares had cost P200,000 in July 2012.
- b. 10,000 shares for P180,000 on 1 March 2020 in Sea Ltd. The shares had cost P220,000 in August 2010.

8. Apex Ltd also had the following investment income which are included in the draft taxable income:

	P
a. Dividends from local companies (net of tax)	74,000
b. Rental income (net of tax)	250,800
c. Bank deposit interest (net of tax)	30,600

Exhibit 2 – Transactions to be concluded in the May 2020 VAT return

The following transactions occurred during May 2020 but have not been recognized yet for VAT. All the figures below are exclusive of VAT.

1. On 13 May 2020, Apex Ltd purchased land with a building thereon from a non-VAT registered citizen individual for P1.5 million, P400,000 was attributable to the cost of the land. Apex Ltd is not sure of how transfer duty, if any, is payable.
2. During the month of May 2020, Apex Ltd brought in management consultants from South Africa carry out a skills audit and make any recommendations. The consultants concluded their work and invoiced Apex Ltd P470,000.
3. Apex Ltd hired a 40 feet container for two months from a VAT registered trader and paid a deposit of P12,000.
4. Apex Ltd purchased a truck on credit and paid a deposit of 20% (or P124,000) of the cost. The cost of the truck was P620,000. The balance would be settled over the next six months. The seller was registered for VAT.