



Botswana Institute of Chartered Accountants

Business Planning: Taxation

Examination Paper

Date: 11 June 2019

Time: 14:00 pm -16.30 pm

Time allowed: 2 hour 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 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.
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 2016/17 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
You **MUST** enter your candidate number in this box

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% 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

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

r

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 DECEMBER 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	1165.0	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	1856.6	1856.6	1860.3	1860.3	1,860.3	1,872.6	1,879.6	1881.4

Question 1

You are a BICA Chartered Accountant, working in practice as a tax adviser. Kefilwe Kgope, one of your firm's clients, owns Nyimo Traders (NT); an unincorporated sole trader business.

Background information

NT has been in business for over 10 years making accounts to 30 June annually. NT has been profitable since inception. NT is registered for VAT and currently makes 100% of taxable supplies. NT operates from a building in Commerce Park in Gaborone. NT owns the building which consists of a warehouse downstairs and offices upstairs. Kefilwe is now of the opinion that the building is too small for the business and intends to sell it and buy bigger new premises in Gaborone North from a property developer. Two thirds of the office premises would be rented out to other companies. The annual rental income will exceed P36,000 per tenant.

Following the success of NT, Kefilwe wishes to incorporate the business as Nyimo Ltd on 1 July 2019. As shareholder/director of Nyimo Ltd, Kefilwe intends to withdraw a gross amount of P50,000 per month, either as a dividend or as a salary. Kefilwe has no other source of income.

Kefilwe has asked you to advise her about the tax effects of the incorporation; and in particular, the difference between the two alternatives available for the sale of building in Commerce Park (**Exhibit 1**) and to advise her as to which of these alternatives will be the most tax efficient. The attachment to the mail (**Exhibit 2**) explains the issues she needs help with and gives you further information about NT in order to enable you to provide her with advice. Kefilwe is 35 years old and has incurred allowable capital losses of P360,000 during the year ending 30 June 2019.

Requirements

Prepare notes for use at a meeting with Kefilwe Kgope, to advise her of the tax consequences of her plans for incorporation. These notes should:

- 1.1 Identify the VAT, income tax and capital gains tax consequences of incorporation for Kefilwe and Nyimo Ltd, taking into account the differing tax effects of adopting either **Alternative 1** or **Alternative 2** in respect of the sale of property in Commerce Park.
- 1.2 Compare the differing tax costs of **Alternatives 1** and **2** and recommend which alternative provides the most tax efficient route for incorporating Nyimo Traders as Nyimo Ltd based on your recommendation in 1.1 above.
- 1.3 Identify and explain the tax consequences of buying and letting the property in Gaborone North.

(Your answer will not be affected by the recommendation that you provided in 1.2 above).

1.4 Briefly consider whether Kefilwe could structure her tax affairs in order to mitigate her tax liabilities as a shareholder/ director of Nyimo Ltd by including dividends as part of her compensation from Nyimo Ltd.

Support your notes with calculations, where relevant.

Total: 40 Marks

Exhibit 1

E-mail from Kefilwe Kgope

To: BICA Chartered Accountant

From: Kefilwe Kgope

Subject: Incorporation of Nyimo Traders(NT) as Nyimo Ltd on 1 July 2019

I have been advised by my solicitors that I need to incorporate my business, NT, for commercial reasons.

On 1 July 2019, Nyimo Ltd will issue 100,000P1 ordinary shares to me, in exchange for the trade and all, or part, of the assets of NT. Nyimo Ltd would be registered for VAT from the first day of commencement. I need your help in deciding whether I should transfer building in Commerce Park to the new company or not (see below my alternatives).

The building has become too small for my business. I plan to sell the building and replace it with newly built commercial premises at Gaborone North. The new premises will be ready to occupy around the same time as I incorporate and will cost P1,800,000, excluding VAT. The plan is to use the proceeds from the sale to acquire the new property in Gaborone North.

I have identified two alternatives for the incorporation of my business and the sale of the building in Commerce Park as follows:

Alternative 1: I transfer the building to Nyimo Ltd on 1 July 2019, along with all the other trade and assets of NT. The company will then sell the property in Commerce Park for its market value (see **Exhibit 2** below) on 1 July 2019 to a third party. Under this alternative, Nyimo Ltd will purchase and own the building in Gaborone North.

Alternative 2: I keep the building in Commerce Park and do not transfer it to Nyimo Ltd with the trade and the remaining assets on incorporation. I then sell the building, personally, for its market value on 1 January 2019. Under this alternative, Kefilwe will purchase and own the building in Gaborone North.

The new premises at Gaborone North will be too large for the immediate use of the company and Nyimo Ltd will rent out two thirds of the building to tenants for at least

three years. Please advise me of the tax consequences resulting from buying the Gaborone North premises and the tax impact of renting out two-thirds of the building to commercial tenants. The expected annual rental income is P420,000 (excluding VAT). Nyimo Ltd would use the building rent free.

The information you may need to give me this advice is included in the attachment below (**Exhibit 2**).

Exhibit 2

E-mail attachment

Tax information concerning NT

NT: Trading profits, adjusted for taxation, in recent accounting periods:

Year ended 30 June	P	
2018	1,600,000	
2019	1,805,000	
2020	2,225,000	(Note)

Note: the adjusted profits for the year ended 30 June 2019 have been estimated and are calculated before any balancing adjustments on sale.

Market value of the trade and assets of NT (excluding VAT) on 1 July 2019:

Asset		Market value
		P
Goodwill	Note 1	700,000
Plant and machinery	Note 2	480,000
Light truck	Note 3	220,000
Net current assets	Note 4	250,000
Property in Commerce Park	Note 5	2,450,000

Total market value of NT		P4,100,000

Notes

1 Goodwill:

The original goodwill was acquired when NT purchased another sole trader's business at a cost of P150,000.

2 Plant and machinery:

Tax written down value of the plant and machinery at 30 June 2019 is P225,000.

3 Light truck

The light truck was purchased for P400,000 in June 2017. Kefilwe used the truck 20% for private purposes. Kefilwe intends to transfer the truck to Nyimo Ltd.

4 Net current assets

The net current assets had a cost of P315,000.

5 Property in Commerce Park:

Cost of the property acquired on 1 July 2011 (excluding VAT) was P990,000

6 NCOLI

Assume that the NCOLI for July 2019 is 1893.4.

Question 2

You work as a tax adviser in a firm of Chartered Accountants. Your firm is responsible for managing the tax affairs of both Bina Ltd, a Botswana resident company, and its recently appointed Finance Director (FD), Galeboe Busang. Galeboe was given some shares in Bina Ltd on appointment. Bina Ltd is involved in trading and construction business.

Bina Ltd prepares its accounts to 31 March annually.

Bina Ltd is registered for VAT.

Background information

Galeboe is a Botswana and is domiciled in Botswana. During the tax year 2018/19, Galeboe received income from local and foreign sources (**Exhibit 1**) and seeks your advice on the tax implications of such income.

Galeboe is in the process of completing the tax return for Bina Ltd and is unsure of how to treat some transactions that occurred during the tax year (**Exhibit 2**). Your manager has requested you to provide brief notes on how the transactions will be treated for tax purposes which will prepare him for his next meeting with Galeboe.

Requirements

2.1 Prepare draft notes for your manager that explain how Galeboe's income tax and capital gains tax liabilities will be calculated for 2018/19 (**Exhibit 1**).

Your answer should include a computation of Galeboe's income tax and capital gains tax liabilities for 2018/19.

2.2 Provide a briefing note for your manager, in reply to Galeboe's request in **Exhibit 2**, which explains the income tax and VAT treatment of the transactions mentioned. You may assume that Bina Ltd will take advantage of any beneficial reliefs wherever relevant.

Total: 35 marks

Exhibit 1

Galeboe Busang's personal tax information

For the 2018/19 tax year Galeboe has the following income and gains:

Income P

Salary (PAYE deducted at source – P97,050)	480,000
Directors' fees – Bina Ltd	60,000
Dividends received from Bina Ltd (gross)	15,000
Gross foreign dividends (Note 1)	45,000
Local consultancy fees (Note 2)	120,000
Foreign consultancy fees gross (Note 3)	220,000

Capital Gains

Foreign gain on sale of a property in South Africa (Note 4)	250,000
Chargeable gain on disposal of a property in Gaborone (Note 5)	180,000

Notes:

1. Foreign dividends

The foreign dividends suffered withholding tax at source of 10%. The net dividends were deposited in a foreign account and Galeboe only remitted P13,500 to her Botswana bank account.

2. Local consultancy fees

Galeboe provided consultancy services to various local companies in her personal capacity.

3. Foreign consultancy fees

Withholding tax of 20% was deducted at source. Galeboe transferred P89,600 to her Botswana account.

4. Foreign capital gain

The capital gain was calculated using South African capital gains tax rules and was subject to income tax of 18% in South Africa.

The chargeable capital gain using Botswana rules would have amounted to P124,000 only.

5. Chargeable capital gain

The buyer paid transfer duty tax of P32,100 on the purchase of Galeboe's property.

Exhibit 2

Extract from note of telephone conversation with Galeboe Busang

Galeboe rang us and as the new FD of Bina Ltd, she is concerned about the tax treatment of some of the transactions that transpired during the year ended 31 March 2019. She seeks our advice on how they should be accounted for taking into account that Bina Ltd will take advantage of any tax advantageous reliefs, wherever appropriate. The transactions of concern, exclusive of VAT, are as follows:

1. Intra group transactions

Bina Ltd is 80% owned by Hoek Ltd, a foreign based company, in a country where the income tax rate is 13%. Bina Ltd imports about 30% of its goods from Hoek Ltd. During the year, Bina Ltd purchased goods worth P1,350,000. Hoek Ltd normally charges a mark-up of 25% but it charges 50% on sales to Bina Ltd. By the end of the year, Bina Ltd had sold those goods at a mark-up of 10%.

Ignore VAT.

2. Disposal of equipment

Bina Ltd disposed of the equipment that it had acquired on 1 January 2016 for P650,000. The equipment was sold for 1 January 2019 for P420,000. The equipment is entitled to a capital allowance rate of 25%.

3. Import of goods and equipment

Bina Ltd also imported the some goods and equipment during the year from unrelated companies as follows:

Purchased goods for South African R395,000 on 1 December 2018 on credit when the exchange rate was P1 to R1.37. The goods were received on 30 December 2018 when the exchange rate was P1 = R1.40. Bina Ltd paid for the goods on 28 February 2019 when the exchange rate was P1 to R1.44.

Purchased equipment from England on 1 February 2019 on credit for British Sterling Pound (£) 35,800 on credit when £1 = P12.95. The equipment was received on 22 February 2019 when the exchange rate was £1 = P13.15. Bina Ltd paid for the equipment on 30 March 2019 when £1 = P13.30.

See Note 2 above.

Question Three

You work as a tax technical manager in a firm of BICA Chartered Accountants. Among other responsibilities, you are responsible for responding to tax queries raised by various clients. During May 2019, you received a number of queries from a number of clients.

1. Adima Ltd, a VAT registered company, purchased of a warehouse from Tebogo for P690,000, excluding any taxes, in August 2018. Tebogo is not registered for VAT. Adima Ltd brought the warehouse in to use immediately. Adima Ltd seeks your advice on the income tax and / or VAT or transfer duty tax implications.

Adima Ltd is a resident company owned 100% by Batswana.

2. Gosego, a BICA member, is a finance manager for a resident company, Nnete Ltd. She works for a company that has been very successful in the recent past, As a result, the income tax liability of the company has also increased significantly, albeit, in line with the increase it's taxable income. In an attempt to reduce the tax liability for the company, the CEO has contacted a firm of tax specialists who claim that they are specialists in reducing the tax liabilities to almost 25% of what the company is currently determined in accordance with the provisions of the Income Tax Act. However, the specialists require the company to enter into a confidentiality agreement that ensure that the company cannot disclose the nature of the tax saving schemes that they employ. Gosego is concerned about arrangements to relating to the engagement of the tax specialists. Gosego would like your opinion on this arrangement.
3. Mr Gabaraane is a high net worth individual in his late 60s. He is seeking your advice on the different types of trusts that are available and how they are taxed. He understands that creating trusts may be tax beneficial for the beneficiaries. However, he is unsure whether he should create the trusts during his life time or by his will. The trusts would be made in favour of his minor children, adult children and his minor grandchildren. Mr Gabaraane intends to transfer cash and/ or property to the trusts.

Requirements

Prepare draft notes that explain or provide:

- 3.1 The VAT or/ and the Transfer Duty tax implications for Adima Ltd arising on the acquisition of a warehouse Tebogo.
- 3.2 Advice about the approach to be taken to the 'tax-saving scheme' offered to Nnete Ltd.
- 3.3 To Mr Gabaraane the income tax and the capital transfer tax of creating the different types of trusts.

Total: 25 marks