



Botswana Institute of Chartered Accountants

Business Planning: Taxation

Examination Paper

Date: 10 December 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 page 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 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

Tax Tables

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

Rates of tax from 2018/19 tax years

Resident companies

	On taxable income
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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%
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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

	Aggregate Taxable Value	Rate of Tax per cent
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

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

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

Question 1

You are a BICA Chartered Accountant working in the Tax Advisory department of Pillar & Associates Accounting firm. You have been invited to a meeting with Topo and Tebogo who are the only directors and shareholders of Gauff Ltd, a Botswana resident company. Your firm has acted as tax advisors for Topo and Tebogo since they incorporated their business.

Gauff Ltd was incorporated on 1 October 2013 and prepares accounts to 31 December annually. The issued share capital of the company on incorporation was 1 million P1 ordinary shares. Topo and Tebogo each paid P500,000 for the shares. Over the years, Gauff Ltd has grown financially and operationally. Topo is in her mid-sixties and intends to retire from the business. Tebogo, on the other hand, wishes to continue growing the business and is looking for investors to replace Topo's shareholding.

Topo and Tebogo have no other income apart from the income they received from Gauff Ltd as full time directors.

Thebe Ltd has made an offer to buy Gauff Ltd's business. There are two available options for selling the business to Thebe (**Exhibit 1**).

Both Gauff Ltd and Thebe Ltd are registered for VAT.

Topo has also sent you an email (**Exhibit 2**).

During the current accounting period, Gauff Ltd began an online business selling training materials to customers outside Botswana. The bank account for receiving proceeds from this business was opened in an offshore account overseas. A friend to Topo and Tebogo suggested that the proceeds from the online business should not be declared as BURS had no way of determining those profits. Topo and Tebogo have asked for our firm's opinion on whether it is appropriate for them to conceal the proceeds from the online business.

Requirements

1.1 Exhibit 1 outlines two options of selling the Gauff business to Thebe Ltd. Explain the Income Tax, Capital Gains Tax and Value Added Tax implications to Gauff and its directors/shareholders (Topo & Tebogo) on each option. Calculations are required to support your explanations.

1.2 From your workings in 1.1 above, advise and recommend Topo and Tebogo on which one of the two options they should choose based on tax savings.

1.3 Explain, with the support of calculations, the VAT and income tax implications to Topo

- if the property is donated or sold to the trustees (**Exhibit 2**) and
- the income earned by the trust.

1.4 The friend of Topo and Tebogo advised them not to declare the income from the online business. Outline and explain to them the ethical implications arising from the suggestion from their friend that they should not declare the income from the online business.

Total: 40 marks

Exhibit 1: Two options for selling the Gauff business to Thebe Ltd

Option 1

Gauff Ltd will sell the trade and assets as a going concern at their market value of P26,000,000 to Thebe Ltd on 31 December 2019. The break-down of the sale proceeds were as follows:

	Carrying amount At 31 Dec 2019 P'000	Income tax value at 31 Dec 2019 P'000	Market value at 31 Dec 2019 P'000
Goodwill	1,200	2,000	5,300
Inventory	4,800	5,600	6,800
Receivables	6,200	6,400	6,100
Plant & machinery	9,600	6,700	7,800
	----- 21,800 -----	----- 20,700 -----	----- 26,000 -----

Option 2

The second option is for Topo and Tebogo to sell all their shares to Thebe Ltd for a consideration of P26,000,000.

For both options:

- You may assume that the sale will be on 31 December 2019 and that Gauff Ltd will have taxable profits of P5,650,000 for the year ended 31 December 2019 before any adjustments of the Gauff business.
- The goodwill was acquired on the acquisition of a smaller business that Gauff Ltd purchased in 2016.
- Tebogo has agreed with the owners of Thebe Ltd that once the Gauff business was sold to them, she would continue to work as the Chief Executive Officer. Topo will retire.
- Both Topo and Tebogo are high income earners.

Exhibit 2: Email from Topo

To: Tax advisor
From: Topo
Date: 1 December 2019
Subject: Creation of a trust

I would like to create a trust for the benefit of my two children, Tshepo and Thabo, equally. Both my children are still in school on a full time basis in South Africa. I own an office block in Block 6, Gaborone which I constructed at a cost of P800,000 in August 2013. The office block has a current market value of P2,400,000. The annual rental income from the property is P276,000.

I am not sure of whether to donate the office block or to sell it to the trustees. I would also like to know the tax implications, if any, for me in respect of the income earned by the trust.

The income from the trust will be used for the education, training and maintenance of the beneficiary.

Assume that the NCOLI for December 2019 is 1933.16.

Question 2

You work for a firm of BICA Tax Consultants. Mr Moagi is a high net worth individual who is resident and domiciled in Botswana. Your manager had a meeting with Mr Moagi a few days ago and he has prepared some notes from that meeting for you.

Mr Moagi is an executive director of a large company and has other various sources of income.

Your manager has emailed you the information provided by Mr Moagi regarding his employment income (**Exhibit 1**) and details for his other sources of income (**Exhibit 2**).

Mr Moagi requires assistance with the preparation of his tax return for the year ended 30 June 2019.

Requirements

Prepare briefing notes for your manager in which you:

- 2.1 Determine the taxable employment income for Mr Moagi for the tax year ended 30 June 2019 (**Exhibit 1**).
- 2.2 Calculate the total taxable income and the tax payable for Mr Moagi for the tax year ended 30 June 2019.

Total: 35 marks

Exhibit 1: Employment income for Mr Moagi

Mr Moagi is an executive director with the following package:

- Basic annual salary of P1,080,000 and PAYE of P247,050 was deducted at source.
- Gratuity at 35% of the basic salary. Mr Moagi completed his second three year contract on 30 June 2019. His salary remained constant over the three year period.
- Mr Moagi was paid a holiday package of P120,000 in March 2019. He travelled to Morocco with his family and only spent P85,000. Mr Moagi was not required to retire the unused money.
- Mr Moagi was granted 100,000 shares of P1 each in an employee share scheme on 1 July 2016. The market value of the shares at the grant date was P14 each. The scheme required that Mr Moagi should remain in employment for at least three years and the purchase or exercise price of the shares was P5 each. On 30 June 2019, Mr Moagi exercised his right and purchased all the shares. The market value of the shares at 30 June 2019 was P17 each.
- The company provided Mr Moagi with the following services:
 - Security services provided by Catch Them All Ltd at an annual cost of P96,000
 - Services of a cook at an annual cost of P72,000
 - Gardening service provided by Green Landscape Ltd at an annual cost of P60,000.
- The company also paid Mrs Moagi an annual salary of P108,000. Mrs Moagi is not an employee of the company but she is paid by virtue of being the wife to Mr Moagi.
- During the tax year, the company purchased 6 tailored made suits for Mr Moagi at cost of P48,000. The company believed that Mr Moagi needed those suits to represent the image of the company.

Exhibit 2 : Income from other sources

During the year ended 30 June 2019, Mr Moagi's details relating to income from other sources was as follows:

- Mr Moagi has various properties within Botswana which he rents out. Some properties are let out to businesses and others as accommodation to individuals. All the units are rented out at more than P36,000 per annum. Any withholding tax due was appropriately deducted by the tenant where relevant. The gross annual rental income earned and expenses incurred during the tax year was as follows:

○ Rental income from businesses	P696,000
▪ Repairs	P108,000
○ Rental income from individuals	P432,000
▪ Repairs	P112,000

- During the year, Mr Moagi was engaged in his personal capacity to provide consultancies and to make presentations at professional conferences. The engagements were conducted both locally and abroad. He was paid a honorarium by the professional bodies.

- Income from foreign consultancies, net of 20% withholding tax, P129,600.
- Income from local consultancies, P70,000.
- Honorarium from foreign presentations, P32,000. No withholding tax was deducted.

- Mr Moagi sold property in South Africa for P2,100,000. The equivalent indexed cost was P1,380,000. South Africa Revenue Services charged capital gains tax of P288,000. The net proceeds were remitted to Mr Moagi's bank account in Gaborone.

- Mr Moagi also received a net foreign dividend of P40,500. Withholding tax of 10% was deducted in the foreign country.

Question 3

You are a newly-qualified BICA Chartered Accountant working in the Tax Department of an Accounting firm. Your firm provides accounting and taxation services to various companies.

Your Tax Manager has provided you with two emails which you need to respond to accordingly.

The first email (**Exhibit 1**) is from a client, Mogwana Ltd, who require the firm to complete their company tax computation for Mogwana Ltd for the year ended 30 November 2019. Mogwana Ltd entrusted the preparation of their tax computation to a Finance Assistant following the resignation of their Financial Accountant.

The second email (**Exhibit 2**) is from a company, Logistics Extra Ltd, which is based in the UK and intends to set up a distribution centre in Botswana. Botswana and the UK have a double tax agreement. Logistic Extra Ltd wishes to understand the VAT and whether the operations would be treated as a permanent establishment in Botswana.

Requirements

3.1 Calculate the revised total taxable income and tax payable for Mogwana Ltd for the year ended 30 November 2019, providing supporting calculations or explanations for any adjustments you make.

3.2 (a) Explain the value added tax (VAT) implications of the proposed distribution operations taking place in Botswana.

(b) Logistics Extra Ltd propose to create distribution operations in Botswana.

Establish if there will be a permanent establishment for Logistics Extra Ltd and set out any income tax implications.

(c) If Logistics Extra Ltd were set up or registered in Botswana as a subsidiary, discuss its income tax implications?

Exhibit 1

Outstanding items for the completion of the company tax computation for Mogwana Ltd for the year ended 30 November 2019:

1. Foreign exchange transactions

Mogwana Ltd purchased some goods and capital assets on credit from South Africa as follows:

Goods for resale

The goods were purchased on 15 October 2019 for R220,000. The first instalment of R110,000 was paid on 15 November 2019. The second and final instalment of R110,000 was paid on 15 December 2019. The exchange difference has not been recognised.

Equipment (self-propelling)

The equipment was purchased on 1 October 2019 for R350,000. The invoice was settled in full on 30 November 2019. The equipment was brought in to use in October 2019.

The exchanges were as follows:

1 October 2019	P1 = R1.12
15 October 2019	P1 = R1.20
15 November 2019	P1 = R1.25
30 November 2019	P1 = R1.28
15 December 2019	P1 = R1.32

The exchange differences and capital allowances, if any, have not been recognised in the computation of the taxable income for the tax year 2019.

2. In October 2015, Mogwana Ltd incorporated a company, Monato Ltd, with a nominal share capital of 3 million shares of P1 each. Monato Ltd is a 100% subsidiary of Mogwana Ltd. The proceeds from the share issue were used to construct a shopping mall which was the dominant underlying asset of the company. The details of the construction cost were as follows:

Date	Activity	Cost	P
January 2016	Architectural drawings	100,000	
January 2016	Purchase of land	500,000	
March 2016	Site preparation	80,000	
December 2017	Completion of construction	2,000,000	
June 2018	Landscaping	300,000	

	Total cost		
			2,920,000

The mall was commissioned and became operational in December 2018. In January 2019, Mogwana Ltd sold 100% of its shares in Monato Ltd for P6,000,000 in January 2019. Assume that the NCOLI for January 2019 is 1940.9.

3. In July 2019, equipment with a cost of P340,000 and an income tax value of P85,000 was damaged in an accident. The equipment was insured and Mogwana Ltd received insurance proceeds of P300,000. In August 2019, another equipment was purchased for P420,000 to replace the damaged one. Mogwana wishes to take advantage of any beneficial elections.

4. Mogwana Ltd had investments in Zambia. During the year under review, it received foreign interest of P250,000 gross. Withholding tax of 15% was deducted at source.

5. The taxable income for Mogwana Ltd before taking into account the above items was P10,800,000.

Exhibit 2

Logistics Extra Ltd is a UK resident company which supplies various consumer goods to different parts of the world. To expand its business in Botswana, Logistics Extra Ltd intend to set up a distribution service centre which will operate from a warehouse in Gaborone.

The distribution centre will be responsible for clearing the goods imported by the customers. The goods will then be couriered directly to the home addresses of the customers. Logistics Extra Ltd will engage the services of three full time local employees who will be stationed in Gaborone.

Two members of staff who are stationed in the UK are sent to Gaborone to perform supervisory duties. The two employees will normally be required to spend two weeks in every quarter in Botswana. But the salaries of the two employees will be fully paid by the head office in the UK.

If the operation proves to be successful, Logistics Extra Ltd intends to increase its presence by employing more staff to undertake operational and administrative duties.