

# **Botswana Institute of Chartered Accountants**

## **Tax Compliance Exam Solutions December 2020**

## Question 1

The types of threat that Dudu is subjected as a result of the conversation with Kopano are:

- Self-interest threat 1
- Intimidation threat. 1

The actions that you should take are:

- Document the discussion with Dudu 1
- Review both the cash account and bank statements to determine whether the amount relates to the purchase of stationary. 1
- Ask Kopano about the unusual transaction to determine the relevant facts 1
- Document your discussions with Kopano 1

If you are not satisfied by the disclosure by Kopano and suspect money laundering, you should:

- Make an internal report to your manger or tax partner. 0.5
- Treat sceptically any other assertions made by the finance director 0.5

The manager or tax partner should then:

- Assess the information contained in the internal report 0.5
- If relevant sent a suspicious activity report to Directorate on Corruption and Economic Crime

Avoid notifying Dudu nor the finance director if you or the firm take any action in relation to anti-money laundering, as tipping off is a criminal offence. 1.5

**Total available: 8 marks**

**Maximum: 7 marks**

## Question 2.1

Calculation of the VAT payable or refundable for November 2020 for Ditlou Ltd:

<b>Output VAT:</b>	<b>P</b>	
Standard rated supplies P980,000 x 12%	117,600	1
Sale of delivery van P260,000 x 12%	31,200	1
Sale of motor car	0	1
Zero rated supplies	0	1
Exempt supplies	0	1
	-----	
Total output VAT	148,800	
	-----	

<b>Input VAT</b>	<b>P</b>	
Purchases relating to:		
Standard-rated supplies P650,000 x 12%	78,000	1
Zero-rated supplies	0	½
Exempt supplies	0	½
Employees' accommodation	0	1
New fridge	0	1
*Non-attributable expenses P110,000 x 12% x 82%	10,824	1
	-----	
	88,824	
	-----	

VAT payable P148,800 – P88,824 =	59,976	1
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		11
		-----

Taxable supplies = 980,000 + 260,000 + 228,000 x 100% = 82%

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Total supplies = 1,790,000

## Question 2.2

Transfer Duty (TD) and VAT implications:

### ***Sale of plot by Thusego to Bakang***

Thusego will not charge VAT or TD. 0.5

Bakang will be required to pay TD as follows:

	<b>P</b>	
Sales proceeds	1,300,000	
Less exemption	(1,000,000)	
	-----	
	300,000	
	-----	
TD at 5%	15,000	1
	-----	

Bakang will be able to claim the TD of P15,000 as input VAT. 1

### ***Purchase of house from Sunil***

Thusego will only be required TD as follows:

	<b>P</b>	
Sales proceeds	2,600,000	
Less exemption	(1,000,000)	
	-----	
	1,600,000	
	-----	
TD at 5%	80,000	1
	-----	

Sunil will not be subject to VAT or TD. ½

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4  
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### Question 3.1

Calculation of chargeable transfers:

	Bakwena	Trustees	Rethabile	Lesedi	Thuso
	P	P	P	P	P
House in Phakalane	3,500,000				
Lodge		6,000,000			
Flat in South Africa			1,800,000		
Cash				100,000	
Landcruiser					800,000
House in B/hurst					1,700,000
Less exemptions	0	0	(1,800,00)	0	0
Less allowable deductions	(28,926)	(49,587)		(826)	(20,661)
Chargeable transfers	3,471,074	5,950,413	0	99,174	2,479,339
<b>Marks</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>

Allowable deductions:

$$\text{Bakwena} = P3,500,000/12,100,000 \times 100,000 = P28,926$$

$$\text{Trustees} = P6,000,000/12,100,000 \times 100,000 = P49,587$$

$$\text{Lesedi} = P100,000/12,100,000 \times 100,000 = P826$$

$$\text{Thuso} = P2,500,000/12,100,000 \times 100,000 = P20,661$$

### Question 3.2

a) Calculation of the chargeable gain or loss on disposal of Onkemetse's shares:

		P	
Sales proceeds		50,000	1
Allowable cost:			
	First 5,000 shares	15,000	1
	Next 5,000 (5/10 x 100,000)	50,000	1
		-----	
		65,000	
		-----	
Allowable loss		15,000	1*
		-----	

(\*only if the candidate has not applied allowance in lieu indexation.)

b) Calculation of the chargeable gain or allowable loss on disposal of the PPR.

		P	
Sales proceeds		2,340,000	1
Allowable cost:			
Cost	1,120,000		1
Cost of perimeter	280,000		1
		-----	
		(1,400,000)	
		-----	
Un-indexed gain		940,000	
Less indexation:			
On house (Aug 2017 – May 2020)			
(1951.0 – 1806.0)/1806 x P1,120,000	89,922		1
On Perimeter (Mar 2018 – May 2020)			
(1951.0 – 1832.2)/1832.2 x P280,000	18,155		1
		-----	
		(108,077)	
		-----	
Chargeable gain		831,923	5
		-----	

C) Computation of total tax liabilities for Onkemetse for the tax year 2019/20:

	<b>P</b>	
Tax on net capital gains (831,923 – 15,000)	816,923	1
	-----	
First P144,000	13,950.00	
Next P672,923 x 25%	168,230.75	
	-----	
Tax on chargeable gains	182,180.75	1
 Tax on taxable income:		
Business income	400,000	1
Local dividends	0	1
Bank deposit interest	0	1
	-----	
	400,000	
	-----	
Tax liability:		
First P144,000	13,050	
Next P256,000 x 25%	64,000	
	-----	
Tax on taxable income	77,050.00	1
	-----	
Total tax liability	259,230.75	6
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### Question 4.1

Calculation of capital allowance for Commercial building for 2019/20:

Eligible cost of the building:

	<b>P</b>	
Site preparation	90,000	½
Drawings for office building	125,000	½
Construction of office building	3,475,000	½
Electrical and water systems	560,000	½
	-----	
Total cost of the building	4,250,000	
	-----	
Capital allowance on Commercial building at 2.5%	P106,250	1
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Calculation of capital allowances on plant & machinery for tax year 2019/20:

	<b>P</b>	
Computers P280,000 x 25%	70,000	1
Director's new car P175,000 x 25%	43,750	1
Pool cars P448,000 x 25%	112,000	1
Delivery vans (P890,000 – P210,000) x 25%	170,000	1
Office furniture P180,000 x 10%	18,000	1
	-----	
Total	413,750	
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Calculation of balancing adjustment on disposal of the car and delivery van:

	Director's Car P	Delivery van P	
Eligible cost	175,000	210,000	1 x 2
Less allowances granted			
P175,000 x 25% x 3 years	(131,250)		1
P210,000 x 25% x 3 years		(157,500)	1
	-----	-----	
ITV b/f	43,750	52,500	
Less sales proceeds	260,000	140,000	
	-----	-----	
Balancing charge	216,250	87,500	303,750 1 x 2
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			14
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## Question 4.2

*Calculation of the taxable income fye 31 December 2019: Matsapa Ltd*

	P	P	
Draft tax-adjusted trading profit		8,870,000	
Add:			
Leased cars	0		1
Chargeable gain on disposal of shares (W1)	112,500		1
Staff Christmas gift vouchers	0		1
Balancing charge	303,750		1
	-----	416,250	
Less:			
Profit on disposal of shares	150,000		1
Capital allowances on Commercial buildings	106,250		1
Capital allowances P & M	413,750		1
	-----	(670,000)	
		-----	
Taxable income		8,616,250	
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*Calculation of tax liability:*

P8,616,250 x 22%	1,895,575	1
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		8
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**Total: 22 marks**

## Working 1

	P
Sales proceeds	250,000
Less allowable cost	(100,000)
	-----
Un-indexed gain	150,000
Less movable allowance at 25%	(37,500)
	-----
Chargeable gain	112,500
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### Question 5.1

a) Calculation of taxable farming income fye 30 June 2020:

	P	P	
Sales to BMC		1,800,000	1
Personal consumption (10 x P4,500)		45,000	1
Donation (20 x P4,500)		90,000	1
		-----	
		1,935,000	
Opening stock (438 x P430)	188,340		
Purchases	865,000		
	-----		
	1,053,340		
Less closing stock (472 x P430)	(202,960)		
	-----		
Cost of sales		(850,380)	2
		-----	
Gross profit		1,084,620	
Less:			
Salaries & wages (240 000-120 000)	124,000		1
Fencing	55,000		½
Vehicle expenses	77,000		½
Cattle feed	140,000		½
Construction of dam	69,000		½
Farm workers buildings allowance 3 x P25,000	75,000		1
	-----		
		(540,000)	
		-----	
Farming income		544,620	
Less farming losses brought forward		(140,000)	1
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Taxable farming income		404,620	10
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b) Calculation of total taxable income fye 30 June 2020:

	P	
Taxable farming income	404,620	1
Bank interest	0	1
Part-time lecturing income (W)	180,000	2
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Total taxable income	584,620	4
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Working

	<b>Net P</b>	<b>Tax P</b>	<b>Gross P</b>
First	130,950	13,050	144,000
Balance	27,000 x 25/75	9,000	36,000
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Total	157,950	22,000	180,000
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c) *Calculation of tax payable for Dikatso fye 30 June 2020:*

		P	
First	P144,000	13,050	
Next	P440,620 x 25%	110,155	
		-----	
Tax liability		123,205	1
Less PAYE deducted		(22,000)	2
		-----	-----
Tax payable		101,205	3
		-----	-----

## Question 5.2

a) *Calculation of Gosego's taxable employment income:*

		P	
Salary		621,000	1
Employer's contribution to provident fund		0	2
Car benefit: 15% x (420,000 – 200,000) + 10,000		43,000	1
Housing benefit: P530,000 x 10%		53,000	1
Employer's medical aid contribution		0	1
Performance bonus		100,000	1
Furniture benefit: 10% x (80,000 – 15,000)		6,500	1
School fees		120,000	1
Entertainment allowance (144,000 – 100,000)		44,000	1
		-----	
Employment income		987,500.00	
Gratuity 27.5% x (621,000 + 517,500 + 450,000) x 2/3		291,225.00	2
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Total taxable income		1,278,725.00	12
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b) *Calculation of Gosego's income tax payable fye 30 June 2020:*

	P	
First P144,000	13,050.00	
Next P1,134,725 x 25%	283,681.25	
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Tax liability	296,731.25	1
Less PAYE deducted at source	(238,500.00)	1
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Tax payable	58,231.25	2
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	<b>Total: 31 marks</b>	