

SOLUTIONS FOR BICA BPT DECEMBER 2021 EXAMS

- 1.1 Explain the income tax, capital gains tax and VAT implications for Thuso, Thabang and Serena Ltd of the two options for selling the Serena Ltd to Thebe Ltd.
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Option 1: sale of trade and assets

The sale of the trade and assets will be made by Serena Ltd. So any tax liabilities arising will be recognised by Serena Ltd. Thuso and Thabang will then be required to withdraw the dividends from Serena Ltd. 1

Income Tax implications for Serena Ltd

- Goodwill

Disposal of goodwill does not give rise to any income tax implications. 1

- Inventory

The gain on the disposal of the inventory is P1,200,000 (i.e. P7,000,000 – P5,800,000) 2

- Receivables

There is a loss of P1,000,000 (P6,000,000 – P7,000,000) being the difference between the income tax value and the market value. 2

- Plant & machinery

The balancing charge is computed as follows:

	P'000	
Income tax value	6,700	1
Less market value	7,800	1

Balancing charge	1,100	

In summary, the additional taxable income for the year ended 30 September 2021 is as follows:

	P'000	
Goodwill	0	.5
Inventory	1,200	.5
Receivables	(1,000)	.5
Plant & machinery	1,100	.5

Taxable income	1,300	

Capital gains tax implications for Serena Ltd

- Goodwill

	P'000	
Market value	8,000	1
Less: allowable cost	(2,000)	1

Un-indexed gain	6,000	
Moveable allowance at 25%	(1,500)	1

Chargeable gain	4,500	

Total additional taxable income for the year ended 30 September 2021:

	P'000	
Taxable income	1,300	1
Chargeable capital gain	4,500	1

Total additional taxable income	5,800	

Additional company tax liabilities = P5,800,000 x 22% = P1,276,000. 1

VAT implications for Serena Ltd

Serena Ltd and Thebe Ltd can make an election to treat the transfer as zero rated. And it is recommended for the two to make such an election. 2

Tax implications for Thuso and Thabang arising on the sale of the trade and assets

The profits for the year and those realised from the disposal of assets are realised by Serena Ltd. Thuso and Thabang will only suffer tax on the extraction of the profits from the company. 1

	P'000	
Gross proceeds	32,000.0	1
Less tax liabilities	(1,276.0)	1

Available for distribution	30,724.0	

Withholding tax on dividends 7.5%	2,304.3	1
Net dividend	<u>28,419.7</u>	1

Dividend received by each shareholder:

Thuso – 40% x P28,419,000	11,367,600
Thabang – 60% x P28,419,000	17,051,400

Therefore, Thuso and Thabang will receive a total net amount of P28,419,000 on the sale of the trade and assets of Serena Ltd. 1

Option 2: Sale of all the shares by Thuso and Thabang

Income tax implications for Serena Ltd

There will be no income tax implications as there is no deemed disposal of the assets. 2

Capital gains tax (CGT) implications for Serena Ltd

There are no CGT implications. 1

VAT implications for Serena Ltd

There are no VAT implications 1

Tax implications for Thuso and Thabang

Thuso and Thabang will only be liable to CGT as follows:

	Thuso P'000	Thabang P'000	
Sales proceeds	12,800	19,200	1
Less allowable cost	(800)	(1,200)	1
	-----	-----	
Un-indexed gain	12,000	18,000	1
Less moveable allowance at 25%	(3,000)	(4,500)	1
	-----	-----	
Chargeable gain	9,000	13,500	
	-----	-----	
Tax thereon:	P	P	
P9,000,000 x 25%	2,250		1
P13,500,000 x 25%		3,375	1
	-----	-----	
Tax payable	2,250	3,375	1
	-----	-----	
Net cash receivable:			
Gross proceeds	12,800	19,200	1
Less tax payable	(2,250)	(3,375)	1
	-----	-----	
Net cash	10,550	15,825	26,375
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2.

By sale of property

If the property was sold to the trust, it would be a sale at full market value for the purposes for capital gains tax. 1

Thuso would be liable to tax on the following chargeable gain:

	P'000	
Market value	2,300.0	
Less allowable cost	(770.0)	1

Un-indexed gain	1,530.0	
Indexation allowance (Aug 2015 – Sept 2021): (2112.8 – 1701.4)/1701.4 x P770,000	(186.2)	1

Chargeable gain	1,343.2	

Since the property was sold to the trust, it cannot be treated as a settlement or donation of the donor. Therefore, the income from the trust will be taxed in the name of the trustees and charged tax in the Thabang amount as if it was taxed on the beneficiaries. 1

The tax payable by the trustees on the trust income of P115,000 will be as follows:

	Tshepo P	Thabo P	
Taxable income P115,000/2	57,500	57,500	1
	-----	-----	
First P36,000	0	0	
Next P21,500 x 5%	1,075	1,075	1
	-----	-----	
Tax liability	1,075	1,075	
	-----	-----	
Total tax payable by the trustees = P1,075 + P1,075 = P2,150.			1

		Total available	44
		Maximum marks	32

1.2 Advise, based on tax savings, Thuso and Thabang which is the best option for selling the Serena business.

Based on tax savings, the best option for selling the Serena business is option 1, sale of the trade and assets. 1

Under Option 1, Thuso and Thabang will receive a total net cash of P28,419,000 while under Option 2, they will increase P26,375.

Therefore, Thuso and Thabang must choose Option 1 and increase their net cash from the disposal of the business by P2,044,000 (P28,419,000 – P26,375). 2

Available 4

Maximum marks 2

1.3 Explain the tax implications for Thuso if the property is donated or sold on An interest free loan (Exhibit 2). Also explain the tax implications for Thuso in respect of the income earned by the trust.

Transfer of property (office block) to the trust

1. By donation

A donation is a gratuitous transfer of property and will be liable to capital transfer tax. 1

However, since the income from the property will be used for the education, training and maintenance of the children, the donation will be exempt from capital transfer tax. 1

From an income tax perspective, the income from the trust which is for the benefit of minor children will be taxed on the settlor during the period of their minority. The income from the trust will be included in the gross income of Thuso. Since Thuso is a high earner, the income will be taxed at 25%. 1

Tax liability on trust income charged on Thuso:

$P115,000 \times 25\% = P28,750$ 1

Available marks: 4

Maximum 2

1.4 Identify the ethical implications of Thabang's comment in relation to Eland Ltd (Exhibit 1) and the actions you and your firm should take.

One of the five fundamental ethical principles for accountants is confidentiality. Thabang is asking the firm to breach this principle. 1

The firm cannot disclose information relating to a client unless:

- Disclosure is permitted by law and is authorised by the client; or
- Disclosure is required by law. 1

In this case, disclosure could only be made if authorised by the client. Safeguards should be in place to ensure confidentiality is not breached. 1

General safeguards would include staff training, and the firm should also consider introducing specific safeguards to ensure that information is not disclosed to Thabang, such as having different staff working on matters relating to each client, with no access to the records of the other client. 1

Before accepting Eland Ltd as a client, the firm would have evaluated whether there were any questionable issues associated with it. 1

I should not disclose the information requested. 1

I should ensure that my colleagues are aware of the dispute between Eland Ltd and Thabang 1

Available Marks 7
Maximum marks: 4
Grand total: 40

2.1 Determine the taxable employment income for Mr Moagi for the tax year ended 30 June 2021

Computation of taxable income for Mr Moagi for the year ended 30 June 2021:

	P	P	
Basic salary – P960,000 x 6/12		480,000	1
Gratuity entitlement (P960,000 x 3 x 35%)	1,008,000		1
Less exemption (P960,000 x 3 x 30%) x 1/3	(288,000)		2
	-----	720,000	
Holiday package		70,000	2
Accommodation benefit – P430,000 x 10% x 6/12		21,500	
Security services - P60,000 x 6/12		30,000	1
Cook – 6/12 x 48,000		24,000	1
Gardening services – 6/12 x 36,000		18,000	1
Car benefit – First P200,000	10,000		
Next P200,000 x 15%	<u>30,000</u>		
6/12 x P40,000		20,000	1
Benefit on purchase of car from employer (240,000 - 100,000)		140,000	2
		-----	----
Employment income		1,523,500	13
		-----	----

2.2 Calculate the total taxable income and the tax payable for Mr Moagi for the tax year ended 30 June 2021.

Computation of the total taxable income for Mr Moagi fye 30 June 2021:

	P	P	
Employment income		1,523,500	1
Rental income from businesses	600,000		1
- Initial repairs	0		1
- Less interest	(122,000)		1
	-----	470,000	
Rental income from individuals	272,000		1
- Less repairs	(14,000)		
- Initial repairs not necessary	(52,000)		1
	-----	206,000	
Income from local consultancies		270,000	1
Gain on disposal of foreign property		0	2
Foreign dividend		0	1
Foreign business profits remitted to Botswana			
Tax on foreign income $80,000 / (280,000 - 57,132) \times 57,132$		20,508	1
Net remitted business income		80,000	1
Chargeable farming income (averaged)	224,000		
Less s.46 loss relief	(200,000)		
	-----	22,400	
		-----	-----
Taxable income excluding foreign dividends		2,600,408	11
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Computation of the tax payable fye 30 June 2021:

	P	
First P144,000	13,050	
Next P2,456,408 x 25%	614,102	

Tax liability	627,152.0	1
Tax on foreign dividend (P12,500/90%) x 15%	2,062.5	1

	629,214	
Less PAYE deducted at source	(97,050)	1
Less: WHT		
On rental income:		

P600,000 x 5%		(30,000)	2
Less Double tax relief:			
On foreign business income: lower of:			
Botswana equivalent			
- P100,508 x P627,152/2,600,408	24,240		1
Foreign tax suffered P100,508 x 20%	20,101	(20,101)	2
DTR on foreign dividend, lower of:			
- Botswana equivalent (as above)	2,062.5		1
- Foreign tax P13,750 x 10%	1,375.0	(1,375)	2
		-----	----
Tax payable		480,688.5	11
		-----	----
		Total marks:	35

Question 3.1

Response to CEO's request

VAT input tax implications

1. Purchase of motor car

Input VAT is denied on the purchase of a motor car subject to exceptions. 1

2. Purchase of a concrete mixer to give an employee as a long service award.

The company claimed the input VAT on the basis that the concrete mixer was acquired for the purpose of business. When the concrete mixer is given to the employee, the company must charge output VAT at the rate of 12%.

2

3. Purchase of a small pick-up truck

Input VAT of P18,000 ($P168,000 \times 12/112$) was claimable. 1

Output VAT should be charged on the sale of the truck to the director at the lesser of:

- the consideration paid or payable by the registered person for those goods or services; or
- the fair market value of the supply.

4. Purchase of a plot of land

No VAT was chargeable by the seller because he was not VAT registered. 1

However, Sekhukhu Ltd will not be required to be required to pay transfer duty because the purchase price is less than P1 million. 1

The transfer duty payable will be treated as claimable input tax. 1

5. Weekend planning retreat

The VAT incurred on accommodation and meals is not recoverable because it falls under entertainment. 1

No VAT would arise on the services provided by the South African consultant as it constitutes importation of service that are consumed for a business purpose within Botswana. 1

Question 3.2

Implications for output VAT

1. Provision of motor car to employee

No output VAT implications. 1

2. Long service award

Since input VAT was claimed, out VAT should be charged because the asset has been applied to a non-business use or different use. 1

The output VAT should be charged on the lesser of:

- The input VAT claimed on acquisition, and
- The fair market value of the supply.

In this case, the output VAT will be based on the fair market value i.e. P1,500 (P14,000 x 12/112). 1

3. Sale of a small pick-up to an executive director

The sale was made at below fair market value, therefore the output VAT will be based on the fair market value.

The output tax = P14,400 (P134,400 x 12/112) 1

Question 3.3

Income tax and CGT implications

1. Provision of motor car to employee

Income tax implications

For the company

Capital allowances – P175,000 x 25% = P43,250 1

For the employee

Benefit in kind (B-I-K) assessable on the employee

First P200,000 10,000

Next P50,880 x 15% 7,632

Benefit included in employment income 17,632 1

2. Long service award

Income tax implications

For the company

The cost of the concrete mixer is deductible as part of the employment cost. 1

For the employee

No income tax implications. 1

3. Purchase and sale of a small pick-up to an executive director

Disposal of plant & machinery

The small pick truck was acquired and sold in the same tax year, therefore no balancing charge or allowance will arise because no capital allowances were claimed., 1

Deemed sales proceeds (FMV) 120,000

Allowable cost P168,000 x 100/112 150,000

Allowable capital loss 30,000

Income tax
For the company

No capital allowances as the truck was sold in the same tax year.

For the executive director

The executive director will be liable to tax on the benefit in kind arising on difference between the fair market value and the amount paid by the director. 1

	P	
Fair market value	120,000.00	
Less amount paid by the executive director	50,000.00	

Assessable benefit	70,000.00	1

4. Purchase of plot of land

No income tax implications.

CGT

The allowable cost for CGT purposes will be P342,500 (P350,000 – P7,500).1

5. Weekend planning retreat

Income tax implications

Amount of P76,160 (VAT inclusive) incurred on the accommodation and meals was wholly tax deductible. 1

The amount paid to the South African consultant is tax deductible 1

On condition that the WHT of P3,600, 10% of P36,000 had been deducted and paid over to BURS. 1

6. The government subsidy is liable to income tax and will be included in the taxable income. 1

Total possible marks	27
Total maximum marks	25