



# Botswana Institute of Chartered Accountants

## Business Planning Taxation Paper

Date: 08 December 2020

Time: 14:00 am -16.30 am

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 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 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

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

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 September 2020**

<b>YEAR</b>	<b>Jan</b>	<b>Feb</b>	<b>Mar</b>	<b>Apr</b>	<b>May</b>	<b>Jun</b>	<b>Jul</b>	<b>Aug</b>	<b>Sep</b>	<b>Oct</b>	<b>Nov</b>	<b>Dec</b>
<b>1982</b>	-	-	-	-	-	-	100.0	101.2	101.2	102.1	103.3	103.8
<b>1983</b>	104.1	104.8	105.5	106.6	108.3	108.4	109.0	110.2	110.2	110.7	111.7	112.3
<b>1984</b>	113.5	114.5	115.2	116.0	116.9	118.3	119.1	120.1	119.8	120.7	119.7	119.5
<b>1985</b>	119.9	120.7	122.0	124.1	126.6	128.6	130.1	129.8	131.1	131.5	131.8	132.0
<b>1986</b>	133.9	135.5	135.5	136.8	138.0	140.9	141.2	141.8	142.7	143.4	144.7	146.3
<b>1987</b>	147.4	148.5	148.9	151.9	153.6	154.1	154.9	156.6	156.7	157.1	157.5	158.1
<b>1988</b>	157.8	158.7	160.8	163.4	164.1	165.5	168.0	169.3	171.0	172.6	173.9	174.4
<b>1989</b>	176.9	178.0	180.1	182.7	184.1	186.2	187.3	188.7	190.2	191.1	191.5	194.2
<b>1990</b>	196.6	199.0	200.5	204.1	205.1	206.0	207.2	209.2	210.7	212.6	216.0	217.6
<b>1991</b>	220.5	221.4	223.5	225.8	227.3	229.0	232.0	234.2	237.2	239.5	242.5	244.9
<b>1992</b>	248.3	251.7	256.3	262.1	265.5	269.4	272.3	275.0	277.6	280.1	283.0	285.4
<b>1993</b>	291.0	293.1	295.8	301.1	303.1	306.0	311.6	313.5	315.0	317.6	320.1	321.5
<b>1994</b>	324.2	326.8	328.5	332.7	337.3	340.2	343.1	345.3	347.0	348.4	351.3	353.0
<b>1995</b>	357.9	361.0	364.9	368.6	370.5	374.9	377.8	381.6	384.3	386.0	387.9	391.3
<b>1996</b>	395.5	398.1	402.2	405.6	408.8	413.9	417.0	419.5	421.6	423.8	426.0	428.7
<b>1997</b>	431.6	435.5	439.7	443.6	448.7	451.2	454.1	454.9	457.5	459.7	460.9	461.9
<b>1998</b>	464.8	466.0	469.9	476.0	477.9	478.9	481.0	484.0	484.4	486.9	489.5	491.2
<b>1999</b>	495.1	499.7	504.3	507.5	509.2	513.3	514.3	517.7	521.1	523.5	524.0	525.2
<b>2000</b>	530.8	536.3	538.8	545.5	548.9	552.0	568.6	569.8	571.4	576	577.5	578.7
<b>2001</b>	581.4	582.1	587.2	598.9	596.9	598.6	601.3	603.0	605.4	608.5	610.2	611.0
<b>2002</b>	613.1	613.9	622.1	629.6	631.3	634.0	654.4	662.4	666.7	670.8	677.6	679.3
<b>2003</b>	683.2	689.0	692.2	701.4	705.8	715.0	714.5	698.0	707.0	715.9	717.9	718.9
<b>2004</b>	721.3	728.6	735.8	743.6	754.0	721.3	758.9	761.3	765.7	770.7	772.4	774.9
<b>2005</b>	779.2	781.7	783.8	789.4	801.5	813.2	821.2	834.8	842.3	857.1	859.7	863.1
<b>2006</b>	877.4	884.0	891.5	901.4	909.6	915.0	918.6	924.2	930.8	936.4	935.4	936.4
<b>2007</b>	942.9	948.5	949.5	957.7	968.1	974.5	988.5	991.2	994.1	1004.3	1007.2	1012.8
<b>2008</b>	1022.2	1034.4	1043.1	1064.7	1085.0	1115.1	1136.7	1140.6	1133.8	1135.5	1159.0	1151.2
<b>2009</b>	1152.7	1155.1	1165.0	1172.8	1176.0	1193.4	1204.8	1209.7	1213	1213.3	1217.2	1218.4
<b>2010</b>	1223.2	1225.4	1234.6	1256.2	1268.6	1285.3	1289.7	1290.6	1297.9	1300.6	1304.2	1309.1
<b>2011</b>	1320.0	1330.2	1338.9	1359.0	1373.6	1386.4	1380.6	1403.4	1409.0	1415.0	1424.0	1428.8
<b>2012</b>	1436.1	1440.0	1446.5	1460.4	1480.0	1487.3	1492.1	1496.7	1508.9	1515.4	1530.2	1534.8
<b>2013</b>	1544.3	1546.9	1555.4	1565.6	1570.2	1573.8	1576.7	1580.4	1584.3	1587.9	1593.5	1598.1
<b>2014</b>	1611.1	1618.6	1624.2	1637.2	1641.8	1646.5	1648.4	1653.0	1655.8	1662.4	1667.0	1663.3
<b>2015</b>	1670.7	1664.2	1669.8	1687.5	1690.3	1696.8	1698.7	1701.5	1704.2	1708.9	1709.8	1708.9
<b>2016</b>	1715.4	1714.5	1721.0	1735.9	1737.8	1741.5	1744.3	1747.1	1751.7	1755.2	1758.7	1760.5
<b>2017</b>	1769.2	1772.7	1781.5	1795.5	1799.0	1802.5	1804.3	1806.0	1807.8	1807.8	1811.3	1816.5
<b>2018</b>	1823.5	1828.8	1832.3	1856.8	1858.6	1858.6	1860.3	1860.3	1860.3	1872.6	1879.6	1881.3
<b>2019</b>	1887.0	1890.8	1892.6	1903.9	1905.8	1909.6	1913.3	1913.3	1915.2	1917.1	1919.0	1922.7
<b>2020</b>	1930.3	1932.1	1934.0	1951.0	1951.0	1926.5	1930.3	1934.0	1814.8			

## Question One

You work as a tax adviser for a firm of BICA Chartered Accountants. Sethunya Ltd is a client of your firm.

### Background information

- Jalo Ltd is engaged in the business of manufacturing detergents and soft drinks which it sells within the local markets.
- Sethunya Ltd has owned 75% of the share capital of Jalo Ltd since it was incorporated in 2010. The other 25% of the share capital was owned by Rapela from the date of incorporation. Rapela works as a Marketing Director for Jalo Ltd. Jalo Ltd has an issued share capital of 1,000,000 shares of P1 each.
- Rapela is a higher rate tax payer.
- Both Sethunya Ltd and Jalo Ltd are resident companies in Botswana.
- Jalo Ltd will be disposed of on 30 September 2020 whichever option will be chosen. Setlhare Ltd, the potential buyer, intends to continue the operations of Jalo Ltd after the acquisition.
- At the beginning of the financial year, the shareholders of Jalo Ltd had expressed their intention to sell the company and had instructed the directors to explore the possibilities of disposing the company or restructuring the company in response to an offer made by Setlhare Ltd. Setlhare Ltd is in the same business and is the major competitor of Jalo Ltd. After negotiations between the management of Jalo Ltd and Setlhare Ltd, three possible offers have been tabled for consideration. The shareholders of Jalo Ltd are interested in minimising their tax liabilities. **(Exhibit 1).**
- Both Jalo Ltd and Setlhare Ltd are VAT registered.
- Jalo Ltd would be disposed of as going concern to Setlhare Ltd, whatever option is chosen.

You recently attended a meeting with the Financial Controller of Jalo Ltd and he has provided you with a draft statement of financial position and the fair market values for the year ending 30 September 2020, together with a list of the three options. He needs your help to determine the tax implications of these three issues. **(Exhibit 2).**

### Requirements

Prepare calculations for the Financial Controller of Sethunya Ltd which contains:

- (a) the income tax and capital gains tax implications of Options 1 and 2 only and recommend which one of the two options is better from a tax position. Your answer must assume that

Rapela will sell all his shares. For this part of the question you should assume that Jalo Ltd will be disposed of on 30 September 2020. **Ignore VAT.**

- (b) Briefly advise the directors of Setlhare Ltd of the capital gains tax consequences of merging Jalo Ltd with Setlhare Ltd on the basis of the information provided in Option 3, **Exhibit 1.**

**(Figures should be to the nearest thousand).**

**(Total: 40 Marks)**

**Exhibit 1 – Options for the disposal of Jalo Ltd**

The following three options were discussed at the meeting with the Financial Controller:

**Option 1 – Sell the 1,000,000 shares for P25,000,000**

Setlhare Ltd to buy the entire share capital of Jalo Ltd for P25,000,000.

**Option 2 – Sale of net assets**

Setlhare Ltd can buy all the net assets of Jalo Ltd for P25,000,000. Setlhare Ltd will assume any of the liabilities of Jalo Ltd. Jalo Ltd would then voluntarily wound up the company. The balance of the cash would then be distributed to the shareholders as a dividend.

**Option 3 – Merger of Jalo Ltd and Setlhare Ltd**

As a possible alternative to the disposal of Jalo Ltd, Jalo Ltd and Setlhare Ltd could be merged into one company. Setlhare Ltd could issue new shares to Sethunya Ltd for the 75% shareholding valued at P15,000,000 and pay cash of P5,000,000 to Rapela. Rapela has indicated that he wants to sell his shares in Jalo Ltd.

**Exhibit 2 – Draft Statement of Financial Position and Fair Market Values at 30 September 2020:**

	<b>NBV P'000</b>	<b>Cost P'000</b>	<b>TWDV P'000</b>	<b>FMV P'000</b>
<b>Non-current assets</b>				
Land	600	600	600	1,700
Factory	1,110	1,500	638	5,400
Equipment	540	800	320	400
	-----	-----	-----	-----
	2,250	2,900	1,558	7,500
	-----	-----	-----	-----

<b>Current assets</b>				
Raw materials	1,548	1,612	?	2,685
Finished goods	5,800	5,800	?	7,400
Trade receivables	3,600	3,800	?	3,400
Bank and cash	400	400	?	400
	-----	-----		-----
	11,348	10,612		13,885
	-----	-----		-----
<b>TOTAL ASSETS</b>	<b>13,598</b>	<b>13,512</b>		<b>21,385</b>
	-----	-----		-----
<b>EQUITY &amp; LIABILITIES</b>				
Share capital of P1 each	1,000			
Retained reserves	11,298			
	-----			
	12,298			
	-----			
<b>Non-current liabilities</b>				
Bank loan	900	900		985
<b>Current liabilities</b>				
Trade liabilities	200	200		200
Other liabilities	200	200		200
	-----	-----		-----
	1,300	1,300		1,385
	-----	-----		-----
<b>TOTAL EQUITY/LIABILITIES</b>	<b>13,598</b>			
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**Notes:**

1. The land was acquired in January 2006 and the construction of the factory was completed in August 2007.
2. FMV – Fair market value.



## Question Two

You are Tebogo Motsumi, a BICA Chartered Accountant, and you work in the tax department of Keletso and Associates. Keletso and Associates has been engaged by Masunga Ltd to provide tax assistance in respect of the financial statements for the year ended 30 September 2020. Masunga Ltd is a Botswana resident company.

Joseph Raesi, a BICA Chartered Accountant is the manager responsible for Masunga Ltd. You receive the following email from Joseph:

To: Tebogo Motsumi  
From: Joseph Raesi  
Date: 26 October 2020  
Subject: Conclusion of the tax computation for Masunga Ltd

Masunga Ltd currently has no finance manager and its finance department lacks tax expertise. A finance assistant has prepared the taxable income for Masunga Ltd for the year ended 30 September 2020 but there are a number of transactions that she was not able to deal with and will require our assistance.

She has computed a draft taxable income for the year ended 30 September 2020 as P6,780,000 which excluded the transactions indicated in **Exhibit 1**. Masunga Ltd wishes to take advantage of any beneficial claims wherever possible. The finance assistant did not calculate any capital allowances or annual allowances for any of the items included in **Exhibit 1** where appropriate.

### Employee issues (**Exhibit 2**)

Masunga Ltd has also asked for our advice regarding the taxation of employee remuneration concerning some staff changes to be implemented in the new year. Employee issues do not affect the taxable income.

I need you to prepare some workings which provide:

- A calculation of the taxable income for Masunga Ltd for the year ended 30 September 2020 after taking in to account the excluded transactions (**Exhibit 1**). Include any additional capital or annual allowances where appropriate.
- An explanation, with calculations where appropriate, the tax implications of the proposed staff (**Exhibit 2**).

## Requirements

Prepare the following for inclusion in the report to your manager:

- (a) Calculate the final taxable income and the tax payable for Masunga Ltd for the year ended 30 September 2020 after taking in to account the excluded transactions (**Exhibit 1**). Indicate with a zero (0) where no adjustment is required.
- (b) Briefly explain the tax implications for the employees of the proposed staff working arrangements based on **Exhibit 2**.

Ignore VAT.

**Total: 30 marks**

### **Exhibit 1 – Details received from the finance assistant in respect of the taxable income for the year ended 30 September 2020:**

The draft taxable income of P6,780,000 do not include any of the transactions below unless otherwise specified:

1. In July 2020, Masunga Ltd uncovered the loss of cash through employee theft amounting to P290,000. Consequently, Masunga Ltd received P300,000 from an insurance company as compensation for the loss of cash in September 2020. The loss has been deducted in arriving at the draft taxable income but the finance assistant was uncertain about the tax treatment of the insurance proceeds.
2. Masunga Ltd engaged IT consultants to develop a tailor made software package. The software package cost P128,000 and the IT consultants charged P52,000 for their labour. The finance assistant was uncertain about the tax treatment of these expenses.
3. On 1 October 2012, Masunga Ltd acquired a leasehold property on 20-year lease for P300,000. On 30 September 2020, Masunga Ltd sold the leasehold for P220,000. The finance assistant was not sure of the income tax or capital gains tax implications resulting from the disposal of the lease.
4. Masunga Ltd purchased goods from South Africa as follows:
  - On 14 June 2020, purchased goods for R156,960 on credit. This invoice was settled on 1 September 2020.
  - On 1 September 2020, Masunga Ltd purchased more goods from South Africa for R250,000 on credit. The invoice remained outstanding at 30 September 2020.
  - The exchange rates were as follows:
    - 14 June 2020                      P1.00 = R1.20
    - 1 September 2020 P1.00 = R1.25
    - 30 September 2020              P1.00 = P1.18
5. Masunga Ltd entered into a 10 year lease with Loapi Ltd in October 2010. The terms of the lease agreement required Loapi Ltd, the tenant, to construct a building at a cost of P350,000. Loapi Ltd completed the construction at a cost of P400,000. Masunga Ltd made the appropriate elections to defer any tax on the property in 2010. The lease ended in

September 2020 and the property reverted to Masunag Ltd when the market value of the building was P600,000.

6. Masunag Ltd disposed of 100,000 P1 debentures for P230,000 in July 2020. The debentures were acquired for P110,000 in January 2007.
7. The finance assistant included a fair value gain of P140,000 that accrued on an investment property in the draft taxable income.
8. Received bank deposit interest of P48,000 gross. The appropriate withholding tax was deducted at source.
9. Masunag Ltd paid training levy contributions in the amount of P240,000.

## **Exhibit 2 – Employee issues**

Masunag Ltd has proposed some changes to the working arrangements for staff and wishes to understand the taxation implications:

1. *Engagement of staff outside of Botswana.*

Masunag Ltd has been approached by a South African company to assign its staff to work in South Africa for periods of 3 to 6 months. The management of Masunag Ltd is keen to use this opportunity as a motivation for its staff members.

There are two options by which the members of staff could be engaged.

- **Option One**

Masunag Ltd enters into a contract with the South African company and payment for work done is received by Masunag Ltd. The employees will be seconded to work in South Africa and will be paid by Masunag Ltd.

- **Option Two**

Allow the employees to be engaged by the South African company directly. The employees will receive the payment for their services from the South African company. The employees will be allowed to take leave from Masunag Ltd.

2. *Introduction of Employee Share Ownership Scheme*

Masunag Ltd intends to introduce an Employee Share Ownership Scheme on 1 January 2021 that would enable employees to purchase shares of the company.

The employees would be granted 10,000 shares of P1 each on 1 January 2021. The exercise price will be P3.00 provided that the employee remains employed for the next 3 years. The fair value of each share at the grant date is estimated at P6.00. The fair value of each share in 3 years' time is estimated to be P10.00. This offer will first be made to 30 employees.

### Question Three

You are a BICA Chartered Accountant working in the tax practice for a firm of BICA Chartered Accountants.

Your firm's client, Goitsepile, is employed by Setlhare Ltd (a grocery wholesale company resident in Botswana). Goitsepile is aged 55 and was married to David Tsheko aged 64. David Tsheko has been a businessman for over 10 years. Both Goitsepile and her husband are Batswana and domiciled in Botswana.

The details of Goitsepile's employment package and investment income for year ended 30 June 2020 are provided in **Exhibit 1**.

Goitsepile and David Tsheko have five children, two are minors and the other three are majors. David Tsheko has sought your advice on the tax implications regarding how he intends provide for their children (**Exhibit 2**).

#### Requirements

- (a) Calculate the taxable employment income of Goitsepile for the tax year ended 30 June 2020. Your answer must clearly show how each item is treated indicating a zero where no adjustment is required (**Exhibit 1**).
- (b) Calculate the taxable income of Goitsepile for the tax year ended 30 June 2020 and the tax payable for the same year (**Exhibit 1**).
- (c) Calculate the capital gain of the sale of property by David T. Tsheko to the trust, Advise David Tsheko of the tax consequences of the three items in **Exhibit 2**. Your answer must fully discuss the tax consequences of the sale, donation or income arising from the proposed transactions in **Exhibit 2**.

**Total: 30 marks**

## **Exhibit 1 – Goitsegile’s employment package and investment income**

### **Employment package**

- (i) An annual salary of P600,000. From this salary, 10% deduction in respect of contributions to the company’s approved pension fund and another 5% deduction in respect of the company’s provident fund. The employer also contributes 10% of Goitsegile’s salary to the approved pension for her benefit.
- (ii) Goitsegile was provided with a company vehicle for her personal and business use. The employer pays for all the fuel. Her business travel only accounted for 25% of her total mileage. The vehicle had cost P480,000 in March 2018.
- (iii) Goitsegile is a member of medical scheme. The annual medical aid contribution is P100,000 of which her employer contributes 75% and she contributes 25%.
- (iv) Goitsegile purchased a macbook laptop which had cost P28,000 in May 2018. She uses the laptop 60% for business and 40% for personal purposes.
- (v) Goitsegile was provided with a family holiday package of P120,000. During the tax year 2019/20, she actually spent P145,000 on the family holiday. The excess was not refunded.
- (vi) In December 2019, Goitsegile commuted 38 leave days. Assume that one month has 22 working days.
- (vii) During the tax year 2019/20, pay as you earn of P127,050 was deducted and paid to BURS.

### **Investment income**

Goitsegile has investments in shares, interest-bearing investments, properties and business interests outside of Botswana.

- (i) Goitsegile owned a house in Johannesburg, South Africa. During the tax year, her net rental income was P180,000 (R225,000) and the income tax charged by the South Africa Revenue Services was P32,400(R40,500). Goitsegile only remitted P100,000 to her Botswana account during the tax year.
- (ii) Goitsegile received dividends of P52,800 (net of withholding tax of 12%) from her investment in the UK.
- (iii) Goitsegile received interest of P22,500 (net of withholding tax of 10%) from her investment in stock bonds in a non-treaty country.

## **Exhibit 2 – Tax consequences of the proposed bequests for David Tsheko and Goitsegile’s children**

David Tsheko is considering making the following arrangements to provide for the future of their children:

- (i) To donate or sale a property valued at P3.5 million to a trust set up for the benefit of his children. The property had originally cost P1.4 million and had an indexation factor of 0.882.
- (ii) The trustees in (i) above would be required to distribute the income from the property to the beneficiaries. The annual income from the property was expected to be P350,000 which would be equally shared among the five beneficiaries.