



## Botswana Institute of Chartered Accountants

### Business Planning Taxation Paper

Date: 07 December 2021

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 2020/21 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 2020/21 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.

<b>Tax on Foreign dividend</b>	<b>15%</b>
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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

	<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

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

Where - A is the annuity payable  
r = rate of return

N = number of years over which the annuity is payable.

### Note:

1. NCOLI are provided in the Questions where relevant.
2. Apply 12% for VAT where relevant.

## Question 1

Your name is Bukata and you work as a BICA Chartered Accountant in the Tax Advisory department of Dube & Associates Accounting firm. You has been scheduled to attend a meeting with Thuso and Thabang the directors / shareholders of Serena Ltd, a Botswana resident company. Your firm has acted as tax advisors for Serena Ltd from the inception of the company.

### Background

Serena Ltd was incorporated on 1 October 2010 and is owned by Thuso and Thabang who also act as directors. . The issued share capital of the company on incorporation was 2 million P1 ordinary shares. Thuso and Thabang each paid P,800,000 and P1,200,000, respectively, for the shares. Over the years, Serena Ltd has grown financially and operationally. Thuso intends to retire from the business and pursue his other interests in the leisure business. Thabang, on the other hand, wishes to sell his share in the company and has negotiated to continue working for Serena as the operations director.

Thuso and Thabang have no other income apart from the income they received from Serena Ltd as full time directors.

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

Both Serena Ltd and Thebe Ltd are registered for VAT.

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

At the meeting, Thabang also mentioned our new client, Eland Ltd. As a result of Thabang's recommendation, Eland Ltd became a new client of our firm, last year. Thabang warned me that Eland Ltd may be in financial difficulties. Thabang implied that Eland Ltd owed Serena Ltd a lot of money. Thabang has asked us if we can help by intervening and asking Eland Ltd to pay what it owes to Serena Ltd.

### Requirements

- 1.1 Exhibit 1 outlines two options of selling Serena business to Thebe Ltd. What will be the Income Tax, Capital Transfer Tax and Value Added Tax implications to Serena and its directors/shareholders (Thuso & Thabang) under each option. Calculate the tax gain or loss on disposal of trade and assets and total taxable income for the tax year ended 30 September 2021.
- 1.2 Thuso and Thabang would like to dispose of Serena Ltd in the most tax efficient manner. Advise them on which option they should take and why? Advise, based on

tax savings, Thuso and Thabang on which is the best option of selling the Serena business.

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

**Total: 40 marks**

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

**Option 1**

Serena Ltd will sell the trade and assets as a going concern at their market value of P32,000,000 to Thebe Ltd on 30 September 2021. The break-down of the sale proceeds were as follows:

	Carrying amount At 31 Sept 2021 P'000	Income tax value at 30 Sept 2021 P'000	Market value at 30 Sept 2021 P'000
Goodwill	1,500	2,000	8,000
Inventory	4,800	5,800	7,000
Receivables	6,600	7,000	6,000
Plant & machinery	9,600	6,700	7,800
Cash	3,200	3,200	3,200
	----- 25,700 -----	----- 24,700 -----	----- 32,000 -----

## Option 2

The second option is for Thuso and Thabang to sell all their shares to Thebe Ltd for a consideration of P32,000,000.

For both options:

- You may assume that the sale will be on 30 September 2021 and that Serena Ltd will have sufficient taxable profits to make the required distributions.
- The goodwill was acquired on the acquisition of a smaller business that Serena Ltd purchased in November 2016.
- Thabang has agreed with the owners of Thebe Ltd that once the Serena business was sold to them, she would continue to work as the Chief Executive Officer. Thuso will retire.
- Both Thuso and Thabang are high income earners.

### Exhibit 2: Email from Thuso

To: Tax advisor  
From: Thuso  
Date: 1 September 2021  
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 P770,000 in August 2015. The office block has a current market value of P2,300,000. The annual rental income from the property is P115,000.

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.

The NCOLI are as follows:

September 2021 - 2112.8.

August 2015 - 1701.4

## 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 2021.

### 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 2021 (**Exhibit 1**).
- 2.2 Calculate the total taxable income and the tax payable for Mr Moagi for the tax year ended 30 June 2021.

**Total: 35 marks**

### Exhibit 1: Employment income for Mr Moagi

Mr Moagi is an executive director with the following package:

- Basic annual salary of P960,000 and PAYE of P97,050 was deducted at source.
- Gratuity at 35% of the basic salary. Mr Moagi completed his third three year contract on 31 December 2020. His salary remained constant over the three year period.
- Mr Moagi was paid a holiday package of P70,000 in September 2020. He travelled to Morocco with his family and spent P90,000. He was not reimbursed the excess amount.
- The company provided Mr Moagi with accommodation and other ancillary services as follows:
  - The rateable value of the property was P430,000.
  - Security services provided by Catch Them All Ltd at an annual cost of P60,000
  - Services of a cook at an annual cost of P48,000
  - Gardening services provided by Green Landscape Ltd at an annual cost of P36,000.
- Mr Moagi was provided with a company car on 1 January 2018 which he used until the end of his contract on 31 December 2020. The car had cost P400,000 and Mr Moagi used it 80% for private purposes. Following the end of his contract which was not renewed, he was allowed to buy the car for P100,000 when its fair market value was P240,000.



## Exhibit 2 : Income from other sources

During the year ended 30 June 2021, Mr Moagi's details relating to income from other sources was as follows:

- Mr Moagi has various properties within Botswana and South Africa 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 - 600,000
    - Initial repairs to make the properties functional - P88,000
    - Interest on loans acquired to purchase some properties - P122,000
  - Rental income from individuals - P272,000
    - Initial repairs not necessary to make the properties habitable - P52,000
    - Agents' fees for finding tenants - P14,000
- From January to June 2021, Mr Moagi provided consultancies locally and received the following income:
  - Income from local consultancies - P270,000.
- Mr Moagi opened a consultancy office in Johannesburg in January 2021. The office made a taxable profit of P280,000. The South African income tax payable on the taxable profit was P57, 132. P80, 000 was remitted to Mr Moagi's bank account in Gaborone.
- Mr Moagi also received a net foreign dividend of P12, 500. Withholding tax of 10% was deducted in the foreign country.
- Mr Moagi owns a farm in Mochudi from which he recorded the following taxable income for the last 3 tax years:

○	2020/21	Taxable income	P492,000
○	2019/20	Allowable loss	(P200,000)
○	2018/19	Taxable profit	P180,000

Mr Moagi wishes to take advantage of any provisions to reduce his tax liabilities relating to his farming income.

### Question 3

You are a BICA Chartered Accountant who has recently been appointed to act as the Chief Finance Officer (CFO) for your company, Sekhukhu Ltd. The substantive CFO was promoted and immediately took up his new position in Zimbabwe.

Sekhukhu Ltd was an approved manufacturing company. It was registered for VAT in 2015.

The Chief Executive Officer has asked you to provide an explanation regarding the tax implications of the transactions listed in **Exhibit 1** assuming all beneficial tax reliefs are made where appropriate.

#### Requirements

Draft a response that explains the tax implications of the items listed in Exhibit 1.

- 3.1 For each of the transactions (1) to (5), state, giving brief reasons, whether and, if so, when input VAT on the acquisition of the asset may be claimed.
- 3.2 For each of the transactions (1) to (3), calculate the output VAT, if any.
- 3.3 For each of the transactions (1) to (5), explain the income tax and CGT position of the company and the buyers/ recipients.

**Total 25 marks**

## Exhibit 1

The tax implications of following transactions were not determined and were outstanding at the time that the substantive CFO left the company.

Sekhukhu Ltd had the following transactions during the tax year 2020/21:

- (1) A motor car purchased for P250,880 (VAT inclusive) was provided to an employee for both business (40%) and private use (60%). The company pays for all fuel and maintenance.
- (2) A concrete mixer purchased for P16,800 (VAT inclusive) in June 2020 was given to an employee as a long service award in May 2021. The appropriate input VAT was correctly claimed. The fair market value is P14,000.
- (3) A small pick-up truck purchased for P168,000 (VAT inclusive) and later sold to an executive director for P50,000, within the same tax year, when its fair market value was P134,400.
- (4) .A plot of land purchased for P350,000 from a non-VAT registered person.
- (5) Sekhukhu Ltd took its senior management team to Mokolodi conference centre for a weekend planning retreat. It incurred P76,160 (VAT inclusive) on accommodation and meals and P116,000 (VAT exclusive) for the workshop facilitation payable to a South African consultant.
- (6) Sekhukhu Ltd received a government subsidy of P200,000 as an incentive for being in the manufacturing industry.