



Botswana Institute of Chartered Accountants

Tax Compliance

Date: 08 June 2021

Time: 09:00 am -11.30 am

Time allowed: 2 hours 30 minutes

Instructions to Candidates

This paper consists of **FIVE** 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 FA 2020

Resident companies

On taxable income

Standard rate	22%
Manufacturing company rate	15%

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

TABLE IV – Applies to Net Aggregate Gains of Individuals

Taxable gain	tax payable
More than	% on excess
0 - 18 000	0
18 000 - 72 000	0 + 5% on excess over P18 000
72 000 - 108 000	2 700 + 12.5% on excess over P72 000
108 000 - 144 000	7 200 + 18.75% on excess over P108 000
over 144 000	13 950+ 25% on excess over P144 000

Capital gains – companies

Net aggregate gains are taxable at the company rates of tax.

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%

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.

Withholding tax rates

	Residents	Non-residents
Interest	10.0%	15.0%
Dividends	7.5%	7.5%
Entertainment fee	–	10.0%
Management and consultancy fees	–	15.0%
Commercial royalty	–	15.0%
Rent	5.0%	5.0%
Commission or brokerage	10.0%	10.0%
Construction contracts	3.0%	3.0%
Botswana Meat Corporation dividend	7.5%	-
Botswana Meat Corporation bonus	4.0%	-

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

Furniture and fittings	10%
Office equipment and machinery	15%
Plant and machinery including farming	15%
Motor vehicles, boats and aircraft	25%
Heavy plant and machinery	25%
Computer hardware	25%
Office Equipment	15%
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%

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

COST OF LIVING INDEX – JULY 1982 to DECEMBER 2020

YEAR	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1982	-	-	-	-	-	-	100.0	101.2	101.2	102.1	103.3	103.8
1983	104.1	104.8	105.5	106.6	108.3	108.4	109.0	110.2	110.2	110.7	111.7	112.3
1984	113.5	114.5	115.2	116.0	116.9	118.3	119.1	120.1	119.8	120.7	119.7	119.5
1985	119.9	120.7	122.0	124.1	126.6	128.6	130.1	129.8	131.1	131.5	131.8	132.0
1986	133.9	135.5	135.5	136.8	138.0	140.9	141.2	141.8	142.7	143.4	144.7	146.3
1987	147.4	148.5	148.9	151.9	153.6	154.1	154.9	156.6	156.7	157.1	157.5	158.1
1988	157.8	158.7	160.8	163.4	164.1	165.5	168.0	169.3	171.0	172.6	173.9	174.4
1989	176.9	178.0	180.1	182.7	184.1	186.2	187.3	188.7	190.2	191.1	191.5	194.2
1990	196.6	199.0	200.5	204.1	205.1	206.0	207.2	209.2	210.7	212.6	216.0	217.6
1991	220.5	221.4	223.5	225.8	227.3	229.0	232.0	234.2	237.2	239.5	242.5	244.9
1992	248.3	251.7	256.3	262.1	265.5	269.4	272.3	275.0	277.6	280.1	283.0	285.4
1993	291.0	293.1	295.8	301.1	303.1	306.0	311.6	313.5	315.0	317.6	320.1	321.5
1994	324.2	326.8	328.5	332.7	337.3	340.2	343.1	345.3	347.0	348.4	351.3	353.0
1995	357.9	361.0	364.9	368.6	370.5	374.9	377.8	381.6	384.3	386.0	387.9	391.3
1996	395.5	398.1	402.2	405.6	408.8	413.9	417.0	419.5	421.6	423.8	426.0	428.7
1997	431.6	435.5	439.7	443.6	448.7	451.2	454.1	454.9	457.5	459.7	460.9	461.9
1998	464.8	466.0	469.9	476.0	477.9	478.9	481.0	484.0	484.4	486.9	489.5	491.2
1999	495.1	499.7	504.3	507.5	509.2	513.3	514.3	517.7	521.1	523.5	524.0	525.2
2000	530.8	536.3	538.8	545.5	548.9	552.0	568.6	569.8	571.4	576	577.5	578.7
2001	581.4	582.1	587.2	598.9	596.9	598.6	601.3	603.0	605.4	608.5	610.2	611.0
2002	613.1	613.9	622.1	629.6	631.3	634.0	654.4	662.4	666.7	670.8	677.6	679.3
2003	683.2	689.0	692.2	701.4	705.8	715.0	714.5	698.0	707.0	715.9	717.9	718.9
2004	721.3	728.6	735.8	743.6	754.0	721.3	758.9	761.3	765.7	770.7	772.4	774.9
2005	779.2	781.7	783.8	789.4	801.5	813.2	821.2	834.8	842.3	857.1	859.7	863.1
2006	877.4	884.0	891.5	901.4	909.6	915.0	918.6	924.2	930.8	936.4	935.4	936.4
2007	942.9	948.5	949.5	957.7	968.1	974.5	988.5	991.2	994.1	1004.3	1007.2	1012.8
2008	1022.2	1034.4	1043.1	1064.7	1085.0	1115.1	1136.7	1140.6	1133.8	1135.5	1159.0	1151.2
2009	1152.7	1155.1	1165	1172.8	1176	1193.4	1204.8	1209.7	1213	1213.3	1217.2	1218.4
2010	1223.2	1225.4	1234.6	1256.2	1268.6	1285.3	1289.7	1290.6	1297.9	1300.6	1304.2	1309.1
2011	1320	1330.2	1338.9	1359.0	1373.6	1386.4	1380.6	1403.4	1409.0	1415.0	1424.0	1428.8
2012	1436.1	1440.0	1446.5	1460.4	1480.0	1487.3	1492.1	1496.7	1508.9	1515.4	1530.2	1534.8
2013	1544.3	1546.9	1555.4	1565.6	1570.2	1573.8	1576.7	1580.4	1584.3	1587.9	1593.5	1598.1
2014	1611.1	1618.6	1624.2	1637.2	1641.8	1646.5	1648.4	1653.0	1655.8	1662.4	1667.0	1663.3
2015	1670.7	1664.2	1669.8	1687.5	1690.3	1696.8	1698.7	1701.5	1704.2	1708.9	1709.8	1708.9
2016	1715.4	1714.5	1721.0	1735.9	1737.8	1741.5	1744.3	1747.1	1751.7	1755.2	1758.7	1760.5
2017	1769.2	1772.7	1781.5	1795.5	1799.0	1802.5	1804.3	1806.0	1807.8	1807.8	1811.3	1816.5
2018	1823.5	1828.8	1832.3	1856.8	1858.6	1858.6	1860.3	1860.3	1860.3	1872.6	1879.6	1881.3
2019	1887.0	1890.8	1892.6	1903.9	1905.8	1909.6	1913.3	1913.3	1915.2	1917.1	1919.0	1922.7
2020	1930.3	1932.1	1934.0	1951.0	1951.0	1926.5	1930.3	1934.0	1949.1	1958.5	1962.2	1964.1

Question 1

Baakanyang & Partners, a firm of Botswana Chartered Accountants, recently tendered for tax compliance and advisory work for Tau Ltd, a marketing company.

Baakanyang & Partners has received notice that the tender was successful. The partners in the firm are pleased as they already have another marketing company, Moroko Ltd, as a client and the firm intends to become specialists in this business sector.

Requirements

1.1 Identify the fundamental principles that are threatened if Baakanyang & Partners accepts Tau Ltd as a client, and set out the safeguards that can be put in place to manage the threats to those fundamental principles.

(4 marks)

1.2 Assuming the threats are sufficiently reduced, explain any other steps Baakanyang & Partners should take before accepting Tau Ltd as a client.

(3 marks)

Total: 7 marks

Question 2.1

Nonyane Ltd is a VAT registered trading company. Nonyane Ltd's records show the following sales and purchases for the month of April 2021. All figures are stated exclusive of VAT.

	Notes	P
Revenue:		
Standard rated sales to local customers		1,445,000
Sales to South Africa		820,000
Proceeds from sale of a delivery van		130,000
Impaired trade debts recovered	(1)	20,000
Commission received	(2)	48,000

Total sales		2,463,000

Expenses:		
Local purchases		780,000
Purchases from South Africa		430,000
Overheads expenses		112,000
Purchase of a pool car		235,000
Purchase of car for a director		322,000
Salaries and wages		670,000
Bank deposit interest		16,000
Discount allowed for early settlement	(3)	32,000

Total purchases		1,734,000

Notes:

- 1) The impaired trade debts recovered were initially written off two years ago and any necessary reliefs were appropriately made at the time.
- 2) The company operates a small insurance agency from which the commission was earned.
- 3) The invoices relating to the discounts allowed were accounted for in the previous tax period.

Requirement

Calculate the net VAT payable by or repayable to Nonyane Ltd for May 2021. Show the VAT treatment of all items. **(12 marks)**

Question 2.2

On 1 April 2021 Moatshe, a citizen, purchased a house in Mokolodi, Gaborone for P2.5 million from Gosego. Mokolodi is classified as agricultural land.

Requirement

Calculate the amount of transfer duty due on the purchase of the house and state when it was due to be paid and who is liable to pay. **(3 marks)**

Total: 15 marks

Question 3.1

Didi lives in Gaborone, and is resident of Botswana. During 2019/20 Didi sold the following assets:

- On 31 October 2020 she sold all her 100,000 shares of P1 shares in AB Ltd, an unquoted trading company, for P460,000 to Masego, her daughter. Didi bought the shares for P280,000 in October 2010 when she began working full-time for AB Ltd. At the time of the sale AB Ltd shares were valued at P8 per share.
- On 30 November 2020 she sold an imported antique painting for P118,000 which cost P25,000 in November 2005.
- On 31 December 2020 she sold a house for P2,100,000. The house cost P500,000 on 1 January 2005. In October 2010 Didi built an extension to the house which cost P175,000. The house is not a principal private residence.
- On 31 October 2020 she sold 2 acres of land in Serowe for P220,000. Didi inherited 4 acres of land in January 2017 from her mother. The probate value was P86,000. Didi's mother originally paid P32,000 for the 4 acres in January 2005.

Didi had a capital loss brought forward at 1 July 2020 of P120,000 arising in the tax year 2019/20.

In addition, Didi had a taxable income of P240,000 during the tax year 2020/21.

Requirement

Calculate Didi's capital gains or losses on the above disposals and the total tax liability for 2020/21. **(12 marks)**

Question 3.2

Motswagae, a Motswana, died from a short illness on 15 March 2021. He was survived by a wife, two sons, Palesa and Selo, and one granddaughter, Katlego.

Prior to his death, Motswagae made the following gifts in 2020/21:

- 1 August 2020 : Contributed P50,000 cash to the funeral of his niece.
- 13 August 2020: Gave his sister, Selwana, P34,000 cash.
- 1 September 2020: Gave a flat in Johannesburg, South Africa to his brother, Leina. The flat was valued at P1,100,000. Leina is domiciled in Botswana.
- 6 October 2020: Paid annual university fees of P80,000 for his granddaughter, Katlego.

Motswagae's will provides for the following bequests:

- Matrimonial house together with its contents valued at P1.5 million to his wife.
- Land valued at P1,200,00 to his wife, Palesa and Selo jointly.
- Landcruiser valued at P320,000 to Palesa.
- Toyota Hilux of P200,000 was left to Selo.

Requirement

Calculate the chargeable capital transfers, if any, that would arise from the lifetime gifts and from the death of Motswagae. Clearly show your treatment of each item.

Do not calculate the capital transfer tax liabilities.

(10 marks)

Question 3.3

Mothibi, a motswana, owns 75% of the ordinary shares of an unquoted trading company, Khumo Ltd. The balance 25% is owned by his wife, Nonofo. Both of them work as full time directors in the company.

Khumo Ltd is a close company.

During the year ended 30 June 2021, Khumo Ltd:

- Mothibi was paid an annual salary of P300,000 for the duration of his contract. On completion of his three year contract on 30 June 2021, he will be paid a gratuity of P360,000. This was his fourth contract with Khumo Ltd. The Pay As You Earn on the salary was correctly accounted for. No tax has yet been accounted for on his gratuity.
- Khumo Ltd gave an interest free loan of P300,000 to Nonofo on 1 July 2020. By 30 June 2021, the outstanding balance on the loan was P220,000. Nonofo is a high rate taxpayer and is required to repay the loan over a period of 45 months.

Assume that the official interest rate is 8% p.a.

Requirement

- i. Calculate the tax payable on Mothibi's gratuity, if any; and
- ii. Explain briefly, with illustrations, the implications of the loan given to Nonofo.
(5 marks)

Total: 27 marks

Question 4

Yarona Ltd is a Botswana resident trading company. Yarona Ltd's accounting profit for its year ended 31 December 2020 was P3,300,000. The items in **Table 1** below were deducted in arriving at the accounting profit.

Table 1	Note	P
Expenses:		
Depreciation		488,000
Profit on disposal of motor vehicles	(1)	120,000
Rent expense (gross)		144,000
Local dividend paid (gross)		50,000
Consultancy fees paid	(2)	180,000
Bad debt expense	(3)	116,000
Payments to contractor	(4)	520,000
Impairment of non-current assets		86,000

Notes

(1) Disposal of motor vehicles	P
Cost incurred on 1 May 2016	440,000
Less depreciation	(176,000)

Carrying amount b/f	264,000
Sales proceeds	384,000

Profit on disposal	120,000

(2) Consultancy fees were paid to a South African company.

(3) The bad debt expense figure comprises:

	P
Increase in specific bad debt provision	13,000
Decrease in general bad debt provision	(25,000)
Employee loan written off	30,000
Trade debts written off	121,000
Bad debts recovered	(23,000)

Profit & loss charge	116,000

(4) Yarona Ltd had engaged a contractor to build a warehouse in Gaborone North. The gross amount paid to the contractor during the year was P520,000.

(5) **Capital allowances**

On 1 January 2020, the details relating to plant and machinery were as follows:

	Furniture & fittings	Computers	Motor vehicles	Delivery vans
Cost:	P	P	P	P
At 1 January 2020	150,000	80,000	1,230,000	650,000
Disposals (note 1)	-	-	(440,000)	-
Additions	0	40,000	250,000	370,000
	-----	-----	-----	-----
	150,000	120,000	1,040,000	1,020,000
	-----	-----	-----	-----
Capital allowances granted:				
At 1 January 2020	110,000	60,000	820,000	650,000
	-----	-----	-----	-----

The motor vehicles consisted of light trucks.

Requirements

- i) Calculate the withholding tax that Yarona Ltd will be required to deduct at source.
(4 marks)
- ii) Calculate Yarona Ltd's taxable income for the year ended 31 December 2020.
(15 marks)

NOTE:

Ignore VAT and transfer duty.

Assume that the withholding tax was duly deducted and paid to BURS appropriately.

Total: 19 marks

Question 5.1

Gaolape and Seanokeng have been in partnership in the business of farming. Both of them have no other income apart from the farming. The following information relates their farming operations for the year ended 30 June 2021:

Gross profit		1,832,000
Farm workers' wages	150,000	
Farm expenses	246,000	
Partners' salaries	200,000	
Depreciation	186,000	
Donation to political party	35,000	
Penalty for submission of tax return by Gaolape	2,000	
Overloading fine	12,000	
Stock written off due damage	29,000	
	-----	(860,000)
Net Profit		----- 972,000 -----

Additional information relating to partnership's farming operations:

1. The partnership agreement provided for the following:

	Gaolape	Seanokeng
Annual salaries	P120,000	P80,000
Profit sharing ratio	3	2

2. Some of the sales were made to Botswana Meat Corporation and the partnership received the following payments:

- P840,000 as payment for the beef sales
- P60,000 as a bonus payment

The sales revenue was correctly included in the profit and loss account.

3. The annual capital allowances for 2020/21 were correctly calculated as P246,000, this figure does not any capital allowances that may arise from the capital expenditure incurred in **Note 4** below.

4. The partnership also incurred the following capital expenditure on the farming operations which was not included in arriving at the net profit of P972,000:

	P
Bush clearing	30,000
Dam construction	58,000
Fencing	44,000
Purchase of truck	190,000

5. Own consumption and donations of cows:
- Gaolape took two cows for own consumption.
 - Seanokeng took three cows, two for own consumption and one as a donation to his niece on the occasion of her wedding ceremony.
 - Each cow has a fair market value of P10,000.

Requirement

- i) Calculate taxable income for the partnership for the year ended 30 June 2021.
- ii) Calculate the taxable income and the tax payable for each of the partners for the year ended 30 June 2021. **(16 marks)**

NOTE: Ignore VAT.

Question 5.2

Pontsho works as sales executive for a large wholesale company.

Pontsho was entitled to the following benefits during the tax year 2020/21:

- Pontsho was paid a basic salary of P300,000 from which PAYE of P52,050 was deducted at source.
- Sales commission earned – P210,000
- Pontsho is a pensionable employee. His employer contributes 20% of his basic salary to an approved pension fund. Pontsho also contributes 20% of his basic salary to the same fund.
- Pontsho commuted 22 days. Assume that there are 248 working days in a year.
- Christmas bonus of P25,000 paid in December 2020.
- Pontsho was provided with company accommodation on 1 October 2020. The house had a rateable value of P520,000.
- The employer paid 100% of the medical aid contributions of P45,000.
- Pontsho was entitled to P60,000 for a family holiday package. He spent P78,000 on the family holiday during the tax year.

Pontsho also had the following investment income during tax year 2020/21:

- Bank deposit interest of P13,000 gross (P520 was deducted at source).
- Dividends from local companies of P25,000 gross.
- Management and consultancy fees of P40,000 gross
- Income from letting properties of P68,000 gross (P3,400 was deducted at source).

Requirements

- i) Calculate Pontsho's chargeable employment income for the year ended 30 June 2021. **(8 marks)**
- ii) Calculate Pontsho's total taxable income for the year ended 30 June 2021. **(5 marks)**
- iii) Calculate Pontsho's tax payable for the year ended 30 June 2021. **(3 marks)**

(Total: 16 marks)