



Botswana Institute of Chartered Accountants

Tax Compliance

Date: 07 June 2022

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 2021/22 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 2021

Use the following tax tables to answer your questions, where necessary.

Rates of tax - 2021/2022 tax years

Resident companies	On taxable income
Standard rate	22%
Manufacturing company rate	15%

Resident individuals

P0 – P48,000	Nil
P48,000 – P84,000	Nil + 5% of excess over P48 000
P84,000 – P120,000	P1,800 + 12.5% of excess over P84 000
P120,000 – P156,000	P6,300 + 18.75% of excess over P120 000
Over P156,000	P13,050 + 25% of excess over P156 000

Non-resident individuals, trusts and estates

P0 – P84,000	5% of every pula
P84,000 – P120,000	P4,200 + 12.5% of excess over P84 000
P120,000 – P156,000	P8,700 + 18.75% of excess over P120 000
Over P156,000	P15,450 + 25% of excess over P156000

Capital gains – individuals

P0 – P36,000	Nil
P36,000 – P84,000	P0 + 5% of excess over P36 000
P84,000 – P120000	P2,400 + 12.5% of excess over P84 000
P1120,000 – P156,000	P6,900 + 18.75% of excess over P120 000
Over P156,000	P13,650 + 25% of excess over P156 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.

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%

Question 1

Tsheko, a BICA chartered accountant, runs a small accounting firm. He acts as the accountant for most family members including, Nonofu. Nonofu is a niece to Tsheko and

she is in the real estate management business. During the tax year 2021/22. Nonofu received a commission of P50,000 for selling a property on behalf of another agent. Nonofu has informed Tsheko that she does not wish to include the P50,000 in her tax return for 2021/22 in order to reduce her tax liabilities.

More than 80% of Tsheko's fees is from accounting services come from his family members.

Requirement

Identify the ethical threats to which Tsheko is exposed to in this situation and explain which of the fundamental principles applicable to chartered accountants she would breach by knowingly preparing an incorrect return for Nonofu.

(Total: 7 marks)

Question 2

Leina Ltd, a Botswana resident company, is involved in the hardware and real estate business. Leina Ltd's profit and loss account for the year ended 31 March 2022 is as follows:

	Note	P'000	P'000
Income:			
Revenue	1	2,078.50	
Rental income (WHT deducted P15,000)		300.00	
Bank deposit interest income (gross)			50.00
Bad debts	2	16.00	
Interest from Botswana Savings Bank			34.00
Revaluation of non-current assets		150.00	
		<hr/>	2,628.50
Expenses:			
Staff salaries		980.00	
Interest expense		320.00	
Tax penalties for late submission of tax return		22.00	
Legal and professional fees	4	77.00	
Depreciation		444.00	
Amortisation		66.00	
Employer's contributions	5	196.00	
Loss on disposal of motor car	6	40.00	
Entertainment of customers		60.00	
Christmas party hosted for employees			90.00
Other allowable business expenses		680.00	(2,919)
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Net loss for the year			(290.5)
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Additional information:

The notes below relate to the Income Statement above:

Note:

- 1 The revenue includes goods worth P220,000 sold on a sale or return basis. The buyers have until 30 May 2022 to buy or return the goods.

2. Bad Debt expense

	P		P
Bad debts written off	8,000	Balance b/d	
Staff loans written off	15,000	- Specific allowance	8,000
Supplier's loans written off	18,000	- General allowance	28,000
		Bad debts written off recovered	
	11,000		
Profit & Loss	16,000	Staff loans written off recovered	
	35,000		
Balance c/d			
- Specific allowance	15,000		
- General allowance	10,000		
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	92,000		82,000
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3. Legal and professional fees

Professional and legal fees consisted of the following:	P
• Issue costs for P1 preference shares	8,000
• Legal fees for trade debt collection	10,000
• Legal fees for recovery of loans from former employees	
4,000	
• An action brought against a supplier for breach of contract	15,000
• Accountancy, audit and taxation fees of	40,000

	77,000

4 Employer's contributions to approved superannuation funds.

The contributions of P196,000 represent 20% of the basic annual salaries of P980,000.

5 Non-current assets disposals (also refer to Note 6 below)

Sold a motor car for P250,000 in November 2021. The motor car was purchased in January 2019 for P580,000. The motor car was used 80% for private use by the General Manager.

6 An extract of Leina Ltd's non-current asset movements for the year ended 31 March 2022 is as follows:

	Cost b/f	Additions during year	Disposal during year b/f	Allowances granted b/f
	P'000	P'000	P'000	P'000
Delivery vans	3,500			2,100
Motor vehicles	2,900	650	(580)	1,740
Computers	200	80	(40)	200

Note:

- i. The computer that was disposed was sold for P5,000.
- ii. Except for the motor car that was sold, all other vehicles had originally cost less than P175,000.
- iii. The addition for computers was for an off the shelf computer package.

7. Ignore VAT.

Required:

(a) Compute the capital allowances and any balancing adjustments for Leina Ltd for the year ended 31 March 2022. (10 marks)

(b) Compute the taxable income/loss for Leina Ltd in respect of the year ended 31 March 2022. (15 marks)

(c) Compute the final taxable income/loss and the income tax payable or refundable for the year ended 31 March 2022. (5 marks)

(Total: 30 marks)

Question 3(a)

Tebogo and Thabo have been in partnership for many years sharing profits in the ratio of 1:1. On 1 July 2021, the partnership admitted Thabo and the partnership agreement was changed as follows:

	Tebogo	Thabo	Tsheko
Profit share	3	2	1
Annual salary (P)	200,000	150,000	150,000

The partnership prepares its accounts to 31 March annually.

The profit and loss account of the partnership drawn up for the year ended 31 March 2022 was as follows:

	P'000	P'000
Gross profit		2,500
<i>Less:</i> Rent	120	
Salaries & wages for employees	440	
Partners' salaries	375	
Other allowable expenses	230	
Depreciation	205	
Accountant's fees	30	
Drawings – Tebogo	60	
Net profit		1,040

Other information:

The capital allowances on plant and machinery for the partnership for the year ended 31

March 2022 had been correctly calculated as P240,000.

Required:

Compute the chargeable partnership income for each of the partners for the tax year 2021/22. (10 marks)

Question 3(b)

Hannah was employed as an accountant at large chain store in Gaborone on a permanent and pensionable basis. Hannah was employed in May 2017.

Her employment contract provided for the following conditions during the year ended 30

June 2022:

	P	P
Salary		480,000
Company house provided: annual rateable value		450,000
Car allowance		24,000
Contributions to approved pension fund:		168,000
• Employer's contributions – 25%	120,000	
• Employee's contributions – 10%	48,000	

Fully paid for family holiday package to Cape Town		85,000
Employer's 100% medical contribution		45,000
Amount reimbursed for children's school fees		60,000
Reimbursements for house utilities		28,000

Note:

Hannas donation to an approved medical facility	12,000
PAYE deducted from Hanna's salary at source	94,050
Hanna paid annual subscriptions to BICA	2,000
The employer did not pay for Hanna's subscriptions	

Compute the taxable income and tax payable by Hanna for the tax year 2021/22.

(9 marks)

(Total: 19 marks)

Question 4 (a)

Mongwe Ltd, a Botswana resident company, has been a VAT registered trader since its incorporation. Mongwe Ltd sells its products both locally and internationally. Mongwe Ltd makes both taxable and exempt supplies. All the transactions were with VAT registered traders, unless otherwise stated.

The amounts below are all stated VAT exclusive wherever applicable.

The following details relate to its one month tax period for April 2022:

Income	P'000
Local standard rated sales	1,800
Export sales	400
Exempt sales	600
Sale of a company motor car	220
Interest income	30
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Total income	3,050
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Expenditure

Salaries	820
Hotel expenses for employees on company business	80
Rent of premises	120
Purchases to make standard rated supplies	700
Purchases to make export supplies	150
Purchases to make exempt supplies	320
Overheads	250
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Total expenditure	2,440
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Required:

Prepare the VAT return for the period April 2022 for Mongwe Ltd. Your answer must clearly compute the VAT payable or refundable. Indicate by the use of a zero (0) for any item which does not result in either input VAT or output VAT.

(16 marks)

Question 4(b)

Mongwe Ltd made the following capital disposals:

1. A hotel which was constructed in August 2010 at a cost of P1,500,000 including the cost of land at P300,000. In July 2018, additional rooms were added to the hotel at a cost of P300,000. The hotel qualifies as an industrial building. The hotel was sold for P3,100,000 in February 2022.
2. Mongwe Ltd sold some shares it owned in a private company. Mongwe Ltd had bought 10,000 shares for P30,000 in May 2012. In July 2017, Mongwe Ltd fully subscribed for a 4 for 1 rights issue at a cost of P5.8 per share. In January 2022, Mongwe Ltd sold 9,000 shares for P63,000.

3. Mongwe Ltd acquired 12,000 shares for P24,000 in Pula Ltd, a resident company listed on the Botswana Stock Exchange, in July 2017. In February 2022, Mongwe Ltd sold 6,000 shares in Pula Ltd for P24,000.

Additional information:

Mongwe prepares accounts to 31 March annually. During the year ended 31 March 2022, Mongwe Ltd also recorded the following:

1. Business taxable income P670,000.
2. Rental income, net of withholding tax, P45,600.

NCOLI factors:

August 2010 –	1290.6
July 2018 –	1860.3
February 2022 –	2188.0

Required:

- (i) Compute the chargeable gains/losses arising on the disposal of the 3 properties sold by Mongwe. (6 marks)
- (ii) Compute the total taxable income for Mongwe Ltd for the year ended 31 March 2022. (4 marks)
- (iii) Compute the tax payable for Mongwe Ltd for the year ended 31 March 2022. (2 marks)

(12 marks)

(Total: 23 marks)

Question 5(a)

Thabo, a widow, had a son (Mmusi) and a daughter (Goitseone). She died after a short illness on 15 December 2021.

Thabo owned the following assets at the time of her death:

The matrimonial house worth P3,200,000 in Phakalane.

A flat in Gaborone West worth P1,500,000 secured with a mortgage loan with an outstanding balance of P250,000.

A flat in Johannesburg valued at P1,120,000.

Cash (P500,000), household goods (P120,000) and other personal effects (P75,000), totalling P695,000.

The terms of Thabo's will provided for the following:

1. Ebineng, a surviving brother to Thabo, inherited the matrimonial house.
2. The flat in Gaborone was bequeathed to the daughter Goitseone.
3. The flat in Johannesburg was bequeathed to a niece, Boipelo. Boipelo is a resident of Botswana and is domiciled in Botswana.
4. Cash, household goods and other personal effects were bequeathed to Mmusi and Goitseone, equally.

Required

Calculate the chargeable capital transfer that would be due as a result of Thabo's death. Calculation of the capital transfer tax liabilities is not required.

(11 marks)

Question 5(b)

Ebineng runs a family business which qualifies as a close company. On 1 July 2021, Ebineng advanced an interest free loan of P100,000 to the close company .

Required:

Explain the tax implications, if any, of the provision of an interest free loan to the close company for Ebineng and for the close company for the year ended 30 June 2022.

Assume that the prevailing commercial interest rate is 8% p.a. **(7 marks)**

(Total: 18 marks)