



Botswana Institute of Chartered Accountants

Tax Compliance

Examination Paper

Date: 06 December 2017

Time: 13:30pm -16.00pm

Time allowed: 2 hours 30 minutes

Instructions to Candidates

This paper consists of **FOUR** 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.

Assume that the Finance Act 2015/16 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 2016/17

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.

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

COSTOFLIVINGINDEX–JULY 1982to JANUARY 2016

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						

1. You are a trainee BICA Chartered Accountant working as an employee for Eugenes Ltd in its finance department. Eugenes Ltd is a private Botswana trading company.

You identified errors in the company tax return for the year ended 31 July 2017 which was filed on 30 November 2017. At your weekly progress meeting with your manager, you raised the errors as an issue. Your manager is also a BICA Chartered Accountant.

In the meeting your manager made it clear that her main concern was that if the errors were disclosed she would lose her job. She asked you not to discuss the errors with anyone else, explaining that the errors had caused only a small underpayment of tax overall. She also promised you that she would consider you for promotion if you agreed to say nothing about this. However, if you did disclose the errors she said she would ensure that it had long-term implications for your career.

Requirements

- (i) In relation to your manager's behaviour towards you at the meeting, identify which type of threat to the fundamental ethical principles arises here and explain which three of the five fundamental ethical principles are most threatened. **(3 marks)**
- (ii) Discuss whether non-disclosure of the errors amounts to tax evasion. **(2 marks)**
- (iii) Assuming it is tax evasion, explain the potential implications for both you and Eugenes Ltd if you fail to disclose the errors. **(2 marks)**

[Total 7 marks]

2.1 Nonyane Ltd is a VAT registered trading company. Nonyane Ltd's records show the following sales and purchases for the month of October 2017. All figures are stated exclusive of VAT.

	Notes	P
Standard rated sales to local customers		1,245,000
Exempt sales to local customers		188,000
Sales to Europe	(1)	740,000
Proceeds from sale of a delivery van		115,000

Total sales		2,288,000

Standard rated costs relating to		
- taxable supplies	(2)	747,000
- exempt supplies		131,600
- overheads for the whole business		98,400
- purchase of a bus	(3)	435,000
- purchase of car for a director	(4)	322,000

Total purchases		1,734,000

Notes;

- (1) One third of the sales made to European customers are to VAT registered customers. The remaining sales were to customers who were not VAT registered.
- (2) A quarter of the purchases were acquired from non-registered traders.
- (3) The bus was acquired for the purpose of transporting employees.
- (4) The director used the car 80% for private purposes.

Requirement

Calculate the net VAT payable by or repayable to Nonyane Ltd for September 2017. Show the VAT treatment of all items. **(10 marks)**

2.2 On 1 October 2017 Uhuru, a non-citizen, purchased a house in Mokolodi, Gaborone for P2.8 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: 13 marks

3.1 Motsumi, aged 60, lives in Gaborone, and is a citizen of Botswana.
During the tax year 2016/17, Motsumi made the following capital disposals:

- Motsumi purchased deep discounted 20 year 15% 100,000 of P1 each for P20,000 in September 2011. The debentures were issued by a local private company, Pula Ltd.

In June 2017, Motsumi sold all the debentures for P55,000.

- In April 2017, Motsumi sold one of four residential block of flats for P850,000. Motsumi incurred P17,000 in legal fees on the disposal. Additionally, Motsumi incurred P8,000 on painting the block of flat prior to its sale.

Motsumi had purchased the whole block of four equally sized flats in January 2011 for P1,120,000. On acquisition of the block of flats, Motsumi had incurred legal fees of P33,600 and transfer duty of P46,000.

Requirement

Calculate Motsumi's net chargeable capital gains for 2016/17. Clearly show the chargeable gain or allowable loss for each disposal. **(10 marks)**

3.2 Lotshwao, a Motswana, died from a short illness on 15 October 2017. He was survived by a wife, two sons, Palesa and Seloi, and one granddaughter, Katlego.

Prior to his death, Lotshwao made the following gifts in 2016/17:

- 1 June 2017: Gave his nephew, Botho, P15,000 cash for his wedding.
- 13 July 2017: Gave his sister, Selwana, P4,000 cash.
- 21 July 2017: Gave a flat in Johannesburg, South Africa to his sister, Selwana. The flat was valued at P800,000. Selwana is domiciled in Botswana.
- 6 August 2017: Paid annual university fees of P45,000 for his granddaughter, Katlego.

Lotshwao's will provides for the following bequests:

- Matrimonial house together with its contents valued at P2 million to his wife.
- 75% of the shares in an unquoted family company valued at P3 million to Palesa and Seloi jointly. The other 25% was given to Lotshwao's wife.
- Cash of P200,000 was left to Katlego.

Requirement

Calculate the chargeable capital transfers, if any, that would arise from the lifetime gifts and from the death of Lotshwao. Clearly show your treatment of each item. **(10 marks)**

3.3 Lesego, a motswana, owns 80% of the ordinary shares of an unquoted trading company, Tholo Ltd. The balance 20% is owned by his wife, Rorisang. Both Lesego and Rorisang work as full time directors in the company.

Tholo Ltd is a close company.

Lesego and Rorisang have an adult daughter, Monei. Monei works in Gaborone for a financial institution.

During the year ended 30 June 2017, Tholo Ltd:

- Paid Lesego P216,000 in respect of his gratuity following the conclusion of his 2 year contract. The gratuity was paid in accordance with Lesego's contract of employment.
- Tholo Ltd made an interest free loan of P300,000 to Monei to help her pay a deposit on a mortgage. Monei is allowed to repay the loan at a future date and at her convenience.

Requirement

Briefly explain tax implications arising:

- on the payment of P216,000 in respect of Lesego's gratuity; and
- on the loan made to Monei **(5 marks)**

Total: 25 marks

- 4 Yarona Ltd is a Botswana resident trading company. Yarona Ltd's accounting profit for its year ended 31 October 2017 is P2,690,000. The items in **Table 1** below have been added or deducted in arriving at the accounting profit.

Table 1	Note	P
Depreciation		318,000
Profit on disposal of warehouse	(1)	577,600
Rent expense	(1)	80,000
Local dividend income (gross)		50,000
Bad debt expense	(2)	140,000
Provision for future costs	(3)	130,000

Notes

- (1) On 29 June 2017 Yarona Ltd sold a warehouse for P980,000. In May 2009, Yarona Ltd acquired a plot of land for P110,000 on which it erected the warehouse. The construction of the warehouse was completed in March 2010 at cost of P340,000.

After the sale of the warehouse, Yarona Ltd moved into rented premises. The rent paid for the period July to October 2017 was P80,000.

- (2) The bad debt expense figure comprises:

	P
Specific bad debt provision c/f	35,000
General bad debt provision c/f	97,000
Employee loan written off	30,000
Trade debts written off	121,000
Specific bad debt provision b/f	(48,000)
General bad debt provision b/f	(72,000)
Bad debts recovered	(23,000)

Profit & loss charge	140,000

- (3) Yarona Ltd intends to acquire a larger warehouse in 2019 and has set up a provision to provide the required finance.

(4) **Capital allowances**

On 1 November 2016, the details relating to plant and machinery were as follows:

	Furniture & fittings	Computers	Motor Cars	Delivery vans
Cost:	P	P	P	P
At 1 November 2016	120,000	90,000	630,000	550,000
Additions	0	30,000	440,000	270,000
	-----	-----	-----	-----
	120,000	120,000	1,070,000	820,000
	-----	-----	-----	-----
Capital allowances granted:				
At 1 November 2016	110,000	67,500	157,300	275,000

Notes:

1. All the motor cars at 1 November 2016 had a cost of less than P150,000 each. The addition to motor cars was a car acquired for the private use of the finance manager.
2. The additions to computers is a computer business package that was purchased separately.

Requirements

Calculate Yarona Ltd's taxable income for the year ended 31 October 2017.

Start with the accounting profit of P3,800,000 and show all items given in **Table 1**, using a zero for any that require no adjustment. Your answer must include clear workings for capital allowances.

(16 marks)

NOTE:

Ignore VAT and transfer duty.

Total: 16 marks

5.1 Gaolape is a retired in 2012 and is now a taxable cattle farmer and a freelance marketing consultant. The following information relates his farming operations for the year ended 30 June 2017:

	P	P
Sales		1,740,000
Opening stock (see note 1)	465,260	
Purchases	855,000	

	1,320,260	
Less closing stock	(613,180)	

Cost of sales		(707,080)

Gross profit		1,032,920
Farm workers' wages	269,400	
Farm expenses	146,600	
Drawings by Gaolape	200,000	
Depreciation	186,500	

		(802,500)

Profit		230,420

Additional information relating to Gaolape's farming operations:

1. The opening stock and closing were correctly determined using the relevant standard values.
2. The annual capital allowances for 2016/17 were correctly calculated as P136,000, this figure does not include any capital allowances that may arise from the capital expenditure incurred in **Note 5** below.
3. A combine harvester that had cost P190,000, and which had accumulated capital allowances of P142,500 at 30 June 2016, was sold for P102,000 on 13 May 2017.
4. Gaolape's farming loss brought forward from the prior year was P57,000.
5. Gaolape also incurred the following capital expenditure on the farming operations:

	P
Bush clearing	28,550
Dam construction	47,200
Fencing	68,475
Purchase of truck	185,000

Information relating to Gaolape's non-farming income for the year ended 30 June 2017:

- (i) Gaolape owns a house which he lets out. The rent income for the year ended 30 June 2017 was P72,000 and the expenditure in relation to the house in the year amounted to:

	P
Replacement of floor tiles	4,500
City Council rates	700
Interest on mortgage loan	32,000

- (ii) Gaolape received gross interest of P24,000 from a local bank. The bank withholding tax of P1,620 at source.
- (iii) Gaolape received an annual gross pension of P48,000 from which tax of P600 had been deducted.

Requirement

Calculate Gaolape's total taxable income and the tax payable for the year ended 30 June 2017. Show your treatment of each item. Your answer must clearly show the chargeable farming income. **(16 marks)**

NOTE: Ignore VAT.

5.2 Pontsho and Maano are employed by Jwaneng Ltd.

Maano

Maano completed her first two-year contract on 30 June 2017. Her employment package for the two years to 30 June 2017 was as follows:

Year ended 30 June	2016	2017
	P	P
Basic salary	300,000	330,000
Housing allowance	24,000	26,400
Transport allowance	12,000	13,200
Reimbursed medical fees	6,000	5,800

Maano was entitled to a gratuity of 20% on her basic salary.

Pontsho

For 2016/17 Pontsho works as a sales manager and his remuneration package included the following:

- Pontsho was paid a basic salary of P240,000 from which PAYE of P37,050 was deducted.
- Sales commission - P360,000
- Pontsho is a pensionable employee. His employer contributes 20% of his basic salary to an approved pension fund. Pontsho also contributes 10% of his basic salary to the same fund.
- Pontsho commuted 42 days of his 68 leave days. Assume that there are 244 working days in a year.
- Thirteenth cheques of P20,000 paid in December 2016.
- Company car costing P400,000. Pontsho is responsible for the cost of fuel.
- On 1 January 2016 Jwaneng Ltd provided Pontsho with an interest free loan of P120,000 so that he could purchase a new main residence. On 1 January 2017, Pontsho repaid P30,000. The official interest rate is 5% p.a.
- Like other employees, Pontsho was provided with free meals in Jwaneng Ltd's staff canteen. The total cost of these meals to the company was P6,100. The fair market value of these meal was P12,200.
- Medical aid contributions were as follows:
 - Employer's contributions – P30,000
 - Pontsho's contributions – P30,000
- P56,000 for family holiday package. Pontsho only utilised P48,000 of the holiday package during the tax year.

Requirements

In relation to the tax year 2016/17:

- (a) Calculate Maano's total employment income. **(6 marks)**
- (b) Calculate Pontsho's taxable employment income and the tax payable. **(17 marks)**

Clearly show your treatment of each item, indicate with 0 where an item is not taxable.

Total: 39 marks

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