



# **Botswana Institute of Chartered Accountants**

## **DECEMBER 2017 TAX COMPLIANCE**

### **MARKING KEY**

**1 (i)**

*Tutorial note – there is no single right answer to the first part. Candidates should be given credit for selecting either threat and explaining why it is relevant. Suitable answers might be one of the following:*

There is a self-interest threat as the manager has promised to consider me for promotion if I remain silent.

There is also an intimidation threat as the manager is my supervisor and I am only a trainee.

*Tutorial note – for the second part there's a half mark for each relevant principle and half for why*

The fundamental principle of objectivity is threatened here because the manager is trying to influence my behaviour.

The fundamental principle of integrity is threatened here because the manager wants me to behave in a way that is not straightforward and honest.

The fundamental principle of professional behaviour is threatened here because the manager wants me to behave in a way that is potentially not compliant with relevant laws and may discredit the profession.

**(1 mark for each valid point = 3 marks)**

**1(ii)**

This is tax evasion because it is misleading BURS by deliberately suppressing information that we now know about the errors. **(2 marks)**

**1(iii)**

Failure to disclose the errors to BURS may result in the payment of penalties to BURS in addition to the unpaid tax and interest thereon.

If it is deemed sufficiently serious, tax evasion can lead to criminal prosecution resulting in fines and/or imprisonment.

Tax evasion may also have money laundering implications. I have a duty to report the suspicion of money laundering otherwise I may be guilty of failure to disclose which can result in a custodial sentence of up to five years.

For such dishonest behaviour I could face being disqualified as a member of the BICA. **(2 marks)**

**(Total: 7 marks)**

## 2.1 Computation of the VAT payable or refundable for September 2017

P

### Output VAT:

Standard rated sales to local customers		
– P1,245,000 x 12%	149,400.00	1
Exempt sales to local customers	0.00	1
Sales to Europe – zero rated	0.00	1
Proceeds from sale of delivery van:		
- P115,000 x 12%	13,800.00	1
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Total Output VAT	163,200.00	
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### Recoverable input VAT:

Taxable supplies – (P747,000 x 75%) x 12%	67,230.00	1
Exempt supplies	0.00	1
Overheads * P98,400 x 12%	11,808.00	2
Purchase of bus – P435,000 x 12%	52,200.00	1
Purchase of car for director – exempt	0.00	1
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Total input VAT	131,238.00	10
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**VAT payable (P163,200 – P131,238) P31,962.00**

\*Recoverable input relating to overheads is restricted to:

Standard rated sales / Total sales x 100%

(1,245,000 + 740,000 + 115,000) / 2,288,000 x 100% = 91.8%

Therefore, the whole input VAT relating to overheads is recoverable.

## 2.2 Calculation of transfer duty due on the purchase of the house in Mokolodi:

Agricultural land is subject to transfer duty of 30%, as follows:

P2,800,000 x 30% = P840,00 2

The transfer duty is payable by the purchaser, Uhuru before transfer of the deemed agricultural land (house). 1

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**Total: 13 marks**

### 3.1 Computation of Motsumi's net chargeable capital gains for 2016/17:

#### Disposal of deep discounted debentures:

	<b>P</b>	
Sales proceeds	55,000	1
Less allowable cost	(20,000)	1
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Un-indexed gain	35,000	
Less moveable allowance at 25%	(8,750)	1
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Chargeable gain	26,250	
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#### Disposal of a block of flats

	<b>P</b>	
Sales proceeds	850,000	1
Less legal fees	(17,000)	1
Painting	0	1
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	833,000	
Less allowable cost:		
- Block of flat – P1,120,000 x ¼	(280,000)	1
- Legal fees – P33,600 x ¼	(8,400)	1
- Transfer duty – P46,000 x ¼	(11,500)	1
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	(299,900)	
	-----	
Un-indexed gain	533,100	
Less indexation allowance:		
P299,900 x (1795.5 – 1320) / 1320	(108,032)	1
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Chargeable gain	425,068	10
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<b>Net chargeable capital gains</b>	<b>P451,318</b>	

### 3.2 Capital transfer tax arising on lifetime gifts

	Botho	Selwana	Tumelo	
	P	P	P	
Cash in consideration of marriage	15,000			1
Casual cash gift		4,000		0.5
Flat in Johannesburg		800,000		1
University fees			45,000	0.5
<b>Total gifts</b>	<b>15,000</b>	<b>804,000</b>	<b>45,000</b>	
Less marriage exemption	(5,000)			0.5
Less casual gift exemption		(5,000)	-	0.5/ 1
<b>Chargeable transfer</b>	<b>10,000</b>	<b>799,000</b>	<b>45,000</b>	
Chargeable transfers arising from the death of Lotshwao				
	Palesa	Seloi	Katlego	
	P	P	P	
Shares in family company	1,125,000.00	1,125,000.00		2
Cash			200,000.00	1
	1,125,000.00	1,125,000.00	200,000.00	
Less allowable deduction	(45,918.40)	(45,918.40)	(8,163.20)	1
<b>Chargeable transfers</b>	<b>1,079,082</b>	<b>1,079,082</b>	<b>191,837</b>	
Transfers or gifts to the wife are wholly exempt				
				1

(10)

### 3.3 Tax implications of transactions between the participator or participator's relative and their close company

#### Payment of gratuity to Lesego

Lesego is a participator of Tholo Ltd as he owns 80% of the ordinary shares of the company.

However, Lesego is also a full-time director of Tholo Ltd and since the gratuity was paid in accordance with his contract of employment, Lesego will be taxed in accordance with the provisions relating to employment income.

Therefore, one third of the gratuity will be exempt from tax and the other two thirds shall be added to Lesego's employment income and charged to tax.

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#### Loan made to Monei by Tholo Ltd

A loan made to a relative of a participator interest free shall be treated as a dividend payment to the participator.

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It shall be included in the taxable income of Lesego or Rorisang and be charged to tax at the prevailing dividend withholding tax rate of 7.5%.

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**Total: 25 marks**

#### 4.1 Computation of YaronaLtd's taxable income fye 31 October 2017:

	P	
Accounting profit	2,690,000	
Depreciation	318,000	0.5
Profit on disposal of warehouse	(577,600)	1
Chargeable gain on disposal of warehouse (W2)	315,003	2
Rent	0	0.5
Local dividend	(50,000)	1
Increase in general provision (97,000 – 72,000)	25,000	1
Employee loan written off	30,000	1
Trade bad debts recovered	0	1
Provision for future costs	130,000	1
Capital allowances (W1)	(468,750)	1
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Taxable income	2,411,653	<b>10</b>
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#### Working 1 – Capital allowances

	P	
Furniture & fittings – P120,000 x 10% but restricted to	10,000	1
Computers:		
- B/f P90,000 x 25%	22,500	1
- Off the shelf P30,000 x 100%	30,000	1
Motor cars:		
- B/f P630,000 x 25%	157,500	1
- Addition P175,000 x 25%	43,750	1
Delivery vans – P820,000 x 25%	205,000	1
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Total capital allowances	468,750	6
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**Total: 16 marks**

#### Working 2 – Chargeable gain on disposal of warehouse

	P
Sales proceeds	980,000
Less allowable cost:	
- Land	110,000
- Warehouse	340,000
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	(450,000)
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Un-indexed gain	530,000
Less indexation allowance:	
<b>On land:</b>	
(1802.5 – 1176) / 1176 x 110,000	58,601
<b>On warehouse:</b>	
(1802.5 – 1234.6) / 1234.6 x 340,000	156,396
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	(214,997)
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	<b>315,003</b>
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## 5.1 Computation of Gaolape's taxable income for tax year 2016/17

	P	
Profit	230,420	
Drawings by Gaolape	200,000	1
Depreciation	186,500	1
Annual capital allowances	(136,000)	1
Balancing charge (W1)	54,500	2
Bush clearing	(28,550)	1
Dam construction	(47,200)	1
Fencing	(68,475)	1
Capital allowances on the truck:		
- P185,000 x 25%	(46,250)	1
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Chargeable farming income	344 945	
Less farming loss b/f	(57,000)	1
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	287 945	
 Net rental income:		
Rental income	72,000	
- Replacement of floor tiles	(4,500)	1
- City council rates	(700)	1
- Interest on mortgage loan	(32,000)	1
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	34,800	
Bank deposit interest	0	1
Gross pension	48,000	1
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<b>Total taxable income</b>	<b>370 745</b>	<b>14</b>
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### Computation of tax liability for tax year 2016/17:

	P	
First P144,000	13,050.00	
Next P226 745 x 25%	56686.25	
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Tax liability	69736.25	1
Less tax deducted from pension	(600.00)	1
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<b>Tax payable</b>	<b>69 136.25</b>	<b>16</b>
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### Working 1 – Balancing adjustment on disposal of the combine harvester

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Cost	190,000
Accumulated capital allowances	(142,500)
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ITV b/f	47,500
Sales proceeds	102,000
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Balancing charge	<u>54,500</u>

**5.2(a) Computation of Maano's total employment income for 2016/17:**

	P	
Basic salary	330,000	1
Housing allowance	26,400	1
Transport allowance	13,200	1
Reimbursed medical fees	0	1
Gratuity payable:		
- 20% x (P300,000 + P330,000)	126,000	1
Less 1/3 exemption	(42,000)	1
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Taxable gratuity	84,000	
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Total taxable employment income	453,600	6
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**5.2(b) Computation of Pontsho's taxable employment income for 2016/17:**

	P	
Basic salary	240,000	1
Sales commission	360,000	1
Employer's pension contribution	0	1
Employee's pension contribution		
- 10% x P240,000	(24,000)	1
Leave commutation		
- 42/244 x P240,000	41,311	2
Thirteenth cheque	20,000	1
Car benefit		
- 10,000 + (200,000 x 15%)	40,000	
- Less fuel cost adjustment	(5,000)	
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	35,000	2
Deemed interest on beneficial loan: (P120,000 + 90,000) / 2 x 5%	5,250	2
Free meals	0	1
Medical aid contributions:		
-employer's contributions	0	1
-employee's contributions	0	1
Family holiday package utilised	48,000	1
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	<b>725,561</b>	<b>15</b>
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Pontsho's tax payable fye 30 June 2017:

	P	
First P144,000	13,050.00	
Next P581,561 x 25%	145,390.25	
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	158,440.25	1
Less PAYE deducted at source	(37,050.00)	1
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Tax payable	121,390.25	2
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**Total: 39 marks**