

BOTSWANA OPEN UNIVERSITY

DIPLOMA IN BUSINESS MANAGEMENT

SESSIONAL EXAMINATION

TAXATION
(TX 122)

Marks: 100

Time: 3 Hours

Instructions:

1. The examination consists of **THREE** sections: A, B and C.
2. Begin each answer to a new question on a new page.
3. Answer questions according to instructions given in each section.
4. Write answers in the answer booklet provided.
5. Write in grammatical English.

SECTION- A.

[25 MARKS]

Answer ALL questions in this section. Each question carries 2 marks.

1. In relation to each of the following items of expenditure commonly incurred by businesses, state, giving reasons, whether it is or is not deductible from assessable income for tax purposes.

(20 marks)

1. The cost of advertisements for an unsuccessful marketing campaign.
2. The cost of acquisition of a business contract.
3. A payment made in advance for the following year's premises rental.
4. Commission paid to a company's salesmen.
5. Bad debt in relation to a loan made to a member of staff.
6. Legal expenses in respect of a dispute over territorial rights.
7. A contribution to a foreign pension fund.
8. Value added tax (VAT) paid for which no input credit is given.
9. Architect's fees for the designing of a new building.
10. Interest paid on a loan to purchase shares as an investment.

2. State whether the following statements are TRUE or FALSE

(5 marks)

- a. Income tax is that part of income paid by an individual, business person, companies etc to Government.
- b. Tax year is any period of 11 months commencing on the first of July.
- c. Inheritance means property that has devolved on a person on the resurrection of its owner.
- d. Balancing allowance is the amount allowed as a deduction (from business assessable income) in a tax year of disposal.
- e. Balancing charge is when the disposal value exceeds the TWDV equivalent to gain on property disposal; amount included in the gross income of person for that year.

SECTION – B. SHORT ANSWER TYPE QUESTIONS

[35 MARKS]

Answer ALL questions in this section



1. Explain the specific components of Gross Income. (5 marks)
2. Explain the responsibility for submission of Returns. (4 marks)
3. List and explain principles of taxation. (8 marks)
4. State the conditions to be fulfilled for considering an individual as resident. (5 marks)
5. What is Mafisa & Matimela. (5 marks)
6. Write short notes of the following.
 - a. Tax Avoidance (4 marks)
 - b. Persons who are exempted from Capital Transfer Tax (4 marks)

SECTION C

[40 MARKS]

Answer ALL questions in this section.

Question 1

(20 Marks)

Mr. Edwin works for Eureka Wholesalers. He has recently been approached by P & G Distributors to go and work for them. Edwin wants advice on whether the employment package which P & G Distributors is offering is better than his current package.

Current package from Eureka Wholesalers:

Annual salary	520 000
Anticipated bonus	50 000
Medical aid – company contribution	15 000
Pension – company contribution	52 000

Proposed package by P & G Distributors:

Annual salary	420 000
Medical aid – company contribution	15 000
School fees	25 000

Company house of 200 square metres
Company car costing P150,000

Edwin currently has the following annual outgoings:

House rentals	48 000	
School fees	25 000	
Costs of running his own car	18 000	
Personal pension contribution to Eureka Wholesalers' pension fund		26 000

Required:

Prepare calculations of Mr. Edwin's tax payable and net cash flow from each employment package and advise him as to whether he should accept P & G Distributors' offer.

Note: In your calculations of taxable income indicate any items which are not taxable by the use of a zero.

Question 2

(20 Marks)

Mr. Kaysor is the managing director of M/s MOKUNT (Pty) Ltd. Details of his earnings for the year ended 30 June 2018 are:

	BWP
Basic salary	600 000
Commission received	238 736
Company car (Cost)	380 000
Company provided housing (Rateable value)	620 000
Utilities paid by the company	32 865
School fees paid by the company	63 872
Medical aid paid by the company	24 618
Cell phone allowance	18 000

PAYE withheld	237 129
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Other information:

1. Kaysor is a member of the company's pension scheme to which he contributes 5% of his basic salary and the company contributes 10%
2. Kaysor pays P24 000 towards his company provided house.
3. Kaysor was reimbursed P13 716 for entertainment expenses which he had incurred during the year.
4. During the year Kaysor cashed in some of his leave for P37 450.
5. In October 2012, the Labour Court awarded Kaysor P50 000 as a result of a pay dispute against the company commenced in the previous year.

Required:

- (i) Calculate Kaysor's taxable income for the year ended 30 June 2018.

Note: Indicate any amounts not taxable or not deductible by the use of zero (0). **(10 marks)**

- (ii) Calculate the tax payable by or refundable to Kaysor for the tax year ended 30 June 2018.

(2 marks)

With respect to the PAYE system of withholding tax:

- (i) List any FOUR types of remuneration which are subject to PAYE. **(4 marks)**

(ii) State:

- a. which persons are liable to deduct PAYE;
- b. the method by which the amount of PAYE to be deducted is ascertained;
- c. the name of the certificate which must be provided annually in respect of each employee; and
- d. the prescribed contents of the certificate (as above). **(4 marks)**

END OF PAPER