

**BOTSWANA COLLEGE OF DISTANCE AND OPEN LEARNING**

**Diploma in Business Management**

**Taxation**

**TX122**

**Special Examination**

**Time: 3 Hours**

**Marks: 100**

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**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 -TRUE / FALSE QUESTIONS**

**[10 M**

**Answer ALL questions in this section. Each question carries ONE (1) mark.**

**State whether each of the following statements is TRUE or FALSE.**

1. Dube has his own building in Gaborone but he stayed in UK during the whole tax year. For tax purposes, Dube is considered a non-resident.
2. Miss Beauty, a citizen of Botswana stayed in USA during the whole tax year and has no building of her own in Botswana. For tax purposes, Miss Beauty is considered a non-resident.
3. Mr Carefree, a citizen of Botswana stays in Bulawayo. During the tax year he stayed for 183 days at the Treetops by the border post of Botswana. Treetops cannot be considered a permanent place of abode; hence he is not a resident.
4. If you stay for more than 183 days in Botswana, you are treated as resident whether you maintain any place of abode in Botswana or not.
5. You were in UK for the last two years and came to Gaborone for consultancy services and stayed for 183 days during the tax year. Then you will be considered as resident. Suppose you stayed only for 182 days, then you are a non-resident.
6. You have reserved the corner room 309 in Gaborone Sun for your stay whenever you visit Botswana. During the tax year you stayed for 120 days and 43 days you went out on and off for recreation, you are not treated as a resident.
7. Consider that you are a citizen of Zambia and arrived for a job in Botswana on 11 June for a 12 month contract with the Government of Botswana. Though you stayed only for 20 days in Botswana, you are considered a resident.

the current tax year, you are not considered a resident even though you are going to be resic  
the next year.

8. Your friend from Zambia joined the Government services of Botswana for two years co  
which expired on 30 August of the current tax year. He has not stayed in Botswana for 18  
during the current tax year. He is not considered as a resident.
9. ABC (Pty) Co. Ltd was registered with the Registrar of Companies, Botswana, and so  
considered as resident, in spite of its trading activities taking place in South Africa.
10. Donald Company Ltd was registered under Zimbabwean Company Laws but its registered  
is located in Gaborone, then it is considered as resident company in Botswana.

**SECTION B – SHORT ANSWER QUESTIONS**

**[50 MAI**

**Answer ALL questions in this Section.**

**QUESTION 1**

**[8 MAI**

Briefly enumerate the Income Tax Law of Botswana relating to an Employer's liability in respect of

- a) registration of employer with CGT (2 m:
- b) tax deduction and tax remittance to CGT (2 m:
- c) payment of remuneration free of tax (2 m:
- d) ITW 8 (2 m:

**QUESTION 2**

**[8 MAI**

- a) What is a 'Tax Identification Number' (TIN)? (2 m:
- b) Explain the purpose of TIN. (2 m:
- c) Dr Tacheba, a Lecturer in Accounting and Finance is having only salaried income from U... there is no other income. Is it necessary to have a TIN if Dr Tacheba is exempt to submit tax return as his only salaried income is of P180 000 received during the current tax year is fully subjected to withholding tax under PAYE system. Explain your answer. (4 m:

**QUESTION 3**

Generally all persons are liable to submit tax returns on due date, but there are a few exceptions to this general rule.

List the persons who are not liable to submit tax returns. (4 m:

#### **QUESTION 4**

Explain the principles of Taxation. How far are these principles applied in the current Income Tax Act of 1995 and the ultimate results achieved? **(10 marks)**

#### **QUESTION 5**

With the aid of an illustration/example, explain any four tax incentives given to the business of farming. **(12 marks)**

#### **QUESTION 6**

Botswana VAT Act has classified three types of activities such as “Standard Rate, Zero-Rate and Exempt Supplies” – With two examples of each such activity; explain the differences of these three activities. **(8 marks)**

SECTION - C

[40 MAI

Answer any TWO questions from this Section.

QUESTION 1

(20 m:

Ndabo (Pty) Ltd is a non-resident company that is in the business of selling medical equipment and surgical appliances. It is also involved, albeit on a rather small scale, in scientific research that is directly associated with its business. The following fragmented financial information is available in respect of the company's transactions for the tax year ended 30<sup>th</sup> June 2006 (figures are in thousands of Pula):

	<b>Pula</b>
Gross Revenue	2 222
Cost of sales/purchases	1 112
Subsidy in relation to carrying on of business	125
Profit on disposal of fixed asset <sup>o</sup>	89
Interest on subscription shares issued by building society in Angola	8
Depreciation on fixed assets <sup>1</sup>	117
Scientific research <sup>2</sup>	74
Contribution to an approved pension fund <sup>3</sup>	67
Interest paid on bank loan for business purposes *	55
Motor vehicle expenses	65
Salaries and wages	190
Annuities paid to former employees	44
General administration expenses	10
Compensation received from insurance company for loss of profits	35
Investment income accrued from business carried out in Mauritius	125
Advertising and publicity*	16
Legal expenses <sup>^</sup>	50
Premium incurred for right to use buildings for an indefinite period"	225

In light of the encouraging financial results of operations, the Board of Directors recommended the shareholders approved a total dividend of P4.25 on 29<sup>th</sup> July 2006, in respect of each of the eighty-five thousand two hundred and seventy (85 270) ordinary shares held as at the close of business at the financial year-end, which is coterminous with the tax year.

*Notes:*

<sup>0</sup> The fixed asset is a commercial vehicle that was purchased on 12<sup>th</sup> September 2003 for P170 000. It was sold at the end of the current tax year for P170 000.

<sup>1</sup> Depreciation is charged at 40% on a straight-line basis on these assets, which comprise computers. These computers were purchased in the previous tax year, and are used 90% of the time for business purposes.

<sup>2</sup> The amount was incurred in respect of scientific research undertaken by the company for the development of its business, and is categorised as follows:

- office consumables (miscellaneous expenses, non-capital in nature) of P34 600
- the rest of the amount was incurred in purchasing computers (depreciation policy use is as stated in note <sup>1</sup> above)

<sup>3</sup> Included in this amount is P24 500 which was incurred in respect of an annuity to a deceased employee's dependent

\* The Commissioner of Taxes has ruled that 40% of this amount is excessive as the interest charged on the loan amount is higher than the prevailing market rate

\* Expenditure on this account was incurred as follows:

- |  |        |
|--|--------|
| ➤ advertising in local newspapers in normal course of business | P8 000 |
| ➤ wedding gift to Managing Director's son                      | P5 000 |
| ➤ annual party for research staff only                         | P3 000 |

^ Legal expenses figure is inclusive of the following costs:

- |  |         |
|--|---------|
| ➤ cost of collecting amount owing by trade debtors | P25 000 |
|--|---------|

- cost of attempting to collect an amount owing by a former employee in respect of a loan granted to him while he was in employment P15 000
- the rest is in respect of the purchase of computers

" This building is used for the production of assessable income of the business. Commissioner of Taxes has determined that the probable duration of the right to use building is fifteen (15) years.

**Required:**

Prepare a computation of the company's taxable income, and calculate its total tax liability for year referred to above. NB Current fiscal changes apply even though the tax computation is for past years.

**QUESTION 2**

**[20 MARKS]**

Hook, Line and Sinker are equal partners in a business that supplies fresh fruit juice. The partner Hook has submitted the tax return together with the following Statement of Comprehensive Income for the tax year ending 30 June 2012.

	<i>Note</i>	<i>P</i>	<i>P</i>
Juice Sales	<i>1</i>		500 000
Bank Interest			44 000
Resident building society subscription share interest			33 000
Farming business income			150 000
			<b>727 000</b>
<b>Less cost of goods sold (juice):</b>			
Opening stock	<i>2</i>	22 000	
Add purchases	<i>3</i>	225 000	

Less closing stock	4	<u>10 000</u>	237 000
Gross profit			490 000
<b>Less Expenses:</b>			
Salaries and wages	5	100 000	
Rent	6	24 000	
Farming business operating expenses		25 000	
Freight & insurance		7 000	
Drawings: Hook		5 000	
Line		15 000	
Interest on partners' capital: Hook		4 500	
Line		10 500	
Sinker		14 400	
Advertising and marketing		20 000	
Depreciation:	7		
Computers at 50%		10 000	
Other Office Machinery at 10%		5 000	
Buildings at 10%		30 000	
Portable plant & machinery used in production at 25%		20 000	
Bad debts provision	8	10 000	
Contribution to Approved Pension Fund	9	15 600	316 000
<b>Net partnership profit</b>			<b>174 000</b>

**The following additional information (in respect of fruit juice business) is available:**

1. Sales are made at 20% margin. Sale of P20 000 was made on 29 June 2012 and the ; have not yet been delivered
2. Inclusive of P3 000 value of other office machinery, wrongly added here
3. Purchased but not yet received P21 000

4. Inclusive of computers purchased during the year for P5 000, wrongly added here
5. Salaries paid to Hook (P16 000), Line (P14 000) and Sinker (P6 500) are included in the figure
6. P12 000 rent paid to the landlord on behalf of Line for use of office space for personal purposes
7. 1/5 value of the buildings is in respect of the industrial building first put to use during the year (in respect of which a premium of P60 000 was paid during the year, for right to use the land on which the building was constructed, for 15 years) and the rest commercial buildings. All these assets were purchased during the tax year.
8. Bad debts provision:

Prior year bad debt written off this year	5 400
Employee loan written off	1 200

The rest are trade debts.
9. The contribution is in respect of all employees of the partnership business.

**Required:**

Calculate the 'chargeable income of the Partnership' as per the Income Tax Act. (20 marks)

**QUESTION 3**

**[20 MARKS]**

- a) With reference to the information given in Question 2, (Section C) above, calculate the taxable income of each partner. (12 marks)
- b) Explain any four principles of taxation that are applicable to Botswana. (8 marks)

**END OF EXAMINATION**

RATES OF TAX STARTING 2011/2012 (Section 59)

TABLE I

Taxable Income (P)	Tax (P)
0 -36 000	0
36 001 -72 000	0 + 5% of excess over 36 000
72 001 -108 000	1 800 + 12.5 of excess over 72 000
108 001 -144 000	6 300 + 18.75% of excess over 108 000
144 001 and above	13 050 + 25% of excess over 144 000

Table I applies to **RESIDENT** individuals

TABLE II

Taxable Income (P)	Tax (P)
0 – 72 000	5% of every
72 001 – 108 000	3 600 + 12.5% of excess over 72 000
108 001 – 144 000	8 100+ 18.75% of excess over 108 000
Over 144 000	14 850 + 25% of excess over 144 000

Table II applies to **NON-RESIDENT** individuals, trusts falling under Section 14(2) and estates of deceased persons

TABLE III

1. Resident company	Company tax	22%
2. Non-resident company	All taxable income	30%
3. Botswana Meat Commission	All taxable income	15%
4. Pension and Provident Fund not approved by the Commissioner General	Investment income	7.5%
5. Dividends accruing outside Botswana	Gross income	15%
6. Persons not included in paragraphs 1 – 5 above	Taxable Income	25%
7. IFSCC	All taxable income	
(a) Income arising from approved financial transactions with non-residents, IFSC companies and Specified Collective Investment Undertakings		15%
(b) All other income		22%

TABLE IV

Taxable Income (P)	
0 – 15 000	
15 001 – 60 000	0 + 5% of excess over 15
60 001 – 90 000	2 250 + 12.5% of excess over 60
90 001 – 120 000	6 000 + 18.75% of excess over 90
Over 120 000	11 625 + 25% of excess over 120

Table IV applies to net aggregate gains of individuals

**RATES OF CAPITAL ALLOWANCE**

<b>Nature of the allowance</b>	<b>Allowance</b>
<i>Straight line annual allowances on plant or machinery at rates between 10% and 25% fixed by Commissioner General</i>	
1. Initial allowance for industrial building	25%
2. Annual allowance for industrial building	2.5%
3. Annual allowance for commercial building	2.5%
4. Heavy civil engineering plant or machinery used directly in construction	25%
5. Aircraft and motorised road vehicles	25%
6. Other self-propelled portable plant or machinery used directly in manufacture or production	25%
7. Other industrial (including farming) plant or machinery used directly in manufacture or production	15%
8. Computers	25%
9. Other office machinery	10%
10. Other plant or machinery (including soft furnishings)	10%
11. Specified farming capital expenditure (3 <sup>rd</sup> Schedule)	100%

**EMPLOYEE-BENEFIT FROM PRIVATE USE OF EMPLOYER OWNED VEHICLES  
WITH EFFECT FROM 1 JULY 2001**

<u>Vehicle cost</u>	<u>Employee-benefit</u>	<u>Fuel Cost Adjustment</u>
P	P	
1 – 50,000	2,500	
50,001 – 100,000	5,000	
100,001 – 150,000	7,500	
151,000 – 200,000	10,000	
200,001 and above	Benefit on the excess of P200000 will be 15% there of	The fuel cost adjustment will be restricted to P5000

**HOUSING BENEFIT TABLE (starting tax year 2011/2012)**

**FROM PULA 36 100 TO PULA 45 600**

<i>INCOME</i>	<u>RELEVANT PERCENT</u>	<u>HOUSING BENEFIT</u>	<i>INCOME</i>	<u>RELEVANT PERCENT</u>	<u>HOUSING BENEFIT</u>	<i>INCOME</i>	<u>RELEVANT PERCENT</u>	<u>HOUSING BENEFIT</u>
36100	1.25	451.25	39300	9.25	3080.25	42500	17.25	6296.25
36200	1.50	543.00	39400	9.50	3173.00	42600	17.50	6405.00
36300	1.75	635.25	39500	9.75	3266.25	42700	17.75	6514.25
36400	2.00	608.00	39600	10.00	3360.00	42800	18.00	6624.00
36500	2.25	686.25	39700	10.25	3454.25	42900	18.25	6734.25
36600	2.50	765.00	39800	10.50	3549.00	43000	18.50	6845.00
36700	2.75	844.25	39900	10.75	3644.25	43100	18.75	6956.25
36800	3.00	924.00	40000	11.00	3740.00	43200	19.00	7068.00
36900	3.25	1004.25	40100	11.25	3836.25	43300	19.25	7180.25
37000	3.50	1085.00	40200	11.50	3933.00	43400	19.50	7293.00
37100	3.75	1166.25	40300	11.75	4030.25	43500	19.75	7406.25
37200	4.00	1248.00	40400	12.00	4128.00	43600	20.00	7520.00
37300	4.25	1330.25	40500	12.25	4226.25	43700	20.25	7634.25
37400	4.50	1413.00	40600	12.50	4325.00	43800	20.50	7749.00
37500	4.75	1496.25	40700	12.75	4424.25	43900	20.75	7864.25
37600	5.00	1580.00	40800	13.00	4524.00	44000	21.00	7980.00
37700	5.25	1665.25	40900	13.25	4624.25	44100	21.25	8096.25
37800	5.50	1749.00	41000	13.50	4725.00	44200	21.50	8213.00
37900	5.75	1834.25	41100	13.75	4826.25	44300	21.75	8330.25
38000	6.00	1920.00	41200	14.00	4928.00	44400	22.00	8448.00
38100	6.25	2006.25	41300	14.25	5030.25	44500	22.25	8566.25

38200	6.50	2093.00	41400	14.50	5133.00	44600	22.50	8685.00
38300	6.75	2180.25	41500	14.75	5236.25	44700	22.75	8804.25
38400	7.00	2268.00	41600	15.00	5340.00	44800	23.00	8924.00
38500	7.25	2356.25	41700	15.25	4444.25	44900	23.25	9044.25
38600	7.50	2445.00	41800	15.50	5549.00	45000	23.50	9165.00
38700	7.75	2534.25	41900	15.75	5654.25	45100	23.75	9286.25
38800	8.00	2624.00	42000	16.00	5760.00	45200	24.00	9408.00
38900	8.25	2714.25	42100	16.25	5866.25	45300	24.25	9530.25
39000	8.50	2805.00	42200	16.50	5973.00	45400	24.50	9653.00
39100	8.75	2896.25	42300	16.75	6080.25	45500	24.75	11261.25
39200	9.00	2988.00	42400	17.00	6188.00	45600	25.00	11400.00

**Note:** Where employment income excluding the housing benefit is P45600 or more the housing benefit the purposes of proviso (ii) to section 32 (3) is 25% of such income

### **FURNITURE BENEFIT**

From 1 July 1997 (i.e. 1997/1998 onwards), furniture benefit is 10% of the cost of furniture after first P15 000

### **CAPITAL TRANSFER TAX**

#### **Taxable Income/Aggregate Taxable ValueRate of Tax percent.**

First P100 000	2%
Next P200 000	3%
Next P200 000	4%
Balance	5%