Grant Thornton

Success line

April 2011

Foreword from our Managing Partner's desk

Welcome to our next edition of Success line, Grant Thornton Botswana's periodic publication where we bring you topics that will be of interest and relevance for your business.

It is heartening to note that Botswana is becoming increasingly relevant in the value chain of the World's diamond market. The establishment of diamond cutting and polishing factories in Botswana as part of the Government's beneficiation plan and the extention into Jewellery manufacturing are welcome developments for Botswana to reap value added returns from its Diamond reserves. Botswana had the best ever site recently where it realized maximum value on diamond sales proving that the diamond market is on the road to recovery. You will all be pleased that Botswana hosted the International Diamond Manufacturer's Conference in Gaborone for four days in April 2011, participated by leading world diamond market players.

In the following pages you will find important information on the latest amendments to the Income Tax Act that will be effective for the most part from 1 July 2011 and some briefing in the International Financial Reporting Standards (IFRS). Beware of certain new provisions in the Income Tax Act that is making you responsible for deduction of Tax at source and also reporting them. IFRS is now a term that every person in business has to be aware of since it is the prescribed standard on how your financial statements are structured and information relating to your business is disclosed. This is applicable whether your financial statements are audited or not. The audit of financial statements is performed based on a different set of guidelines that goes under the name of International Standards on Auditing.

So, now you know that the Accountant applies International Financial Reporting Standards (IFRS) and the Auditor applies International Standards on Auditing (ISA).

We will soon be welcoming the Botswana Institute of Chartered Accountants that will be replacing the Botswana Institute of Accounts that has been in existence since the promulgation of the Accountants Act in 1988. You will be pleased to note that this body will have more enforceable powers than its predecessor body to regulate the accounting and auditing profession in the Country. It will also be introducing Botswana's own Chartered Accountant qualification with the backing of the world renowned Institute of Chartered Accountants of England & Wales.

Vijay Kalyanaraman, our partner in the Advisory Services team who will soon be taking over as the President of this prestigious Institute of Accountants in Botswana. He follows Jay Ramesh and Raja Ram, the two past presidents of the Institute of Accountants.

I take this opportunity to congratulate Anju Suresh on her promotion as a Partner in charge of the Corporate Services team. Anju will be also responsible for the Business Development of the firm.

Enjoy reading our Success line.

Jay Ramesh

Proposed Tax Amendement

Compiled by Rajesh Narasimhan, Tax Team

A spotlight of the Tax amendments that has been recently published in Government Gazette. These amendments will be effective from 01 July 2011 for the tax year June 2012, pending final gazette publication. The amendments regarding withholding tax on rent will be effective from the date of publication.

INCOME TAX – CORPORATE TAXATION

- The corporate tax rate has been reduced from 25% to 22%.
- Non resident companies will be taxed at 30%.
- Other income of IFSC companies will be taxed at 22%.
- Manufacturing companies will be charged as per the Manufacturing Approval Order issued by the Minister until the time limit specified in the order.
- Taxation for corporate shall be a single tier system with the abolition of Additional Company tax (ACT).
- Amount contributed to a mine rehabilitation fund, approved by the Minister, will be allowed as a deduction.
- Training levy paid in accordance with the provisions of the Vocational Training Act and Vocational Training (Structured Training) Regulations to be allowed as a tax deduction.
- Payments received by the taxpayer as reimbursement of training costs paid under the Vocational Training (Reimbursement) Regulations to be included in gross income.
- Additional 100% training expenditure deduction cannot be claimed where a taxpayer is entitled to reimbursement under the Vocational Training (Structured Training) Regulation.

INCOME TAX – PERSONAL TAXATION

- Threshold for individual's tax increased from P30 000 to P36 000
- With the change in the definition of business, individuals are allowed to set off losses from one business with another. Farming, mining and capital losses are ring fenced.

The revised tax rates for June 2012 are as follows:

RESIDENTS

TAXABLE INCOME	TAX
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	6300 + 18.75% of excess over 108 000
144 001 and above	13 050 + 25% of excess over 144 000

INDIVIDUALS –NON RESIDENTS

TAXABLE INCOME	TAX
0 -72 000	5% for every Pula
72 001- 108 000	3,600 + 12.5% of excess over 72 000
108 001-144 000	8100 + 18.75% of excess over 108 000
144 001 and above	14,850 + 25% of excess over 144 000

CORPORATE TAX RATES (Proposed for June 2012)

NATURE OF COMPANY	RATES (%)
Resident Company	22
Non Resident Company	30
Botswana Meat Commission (all taxable income)	15
Pension and provident fund not approved by the Commissioner General (Investment income)	7.5
Dividends accruing outside Botswana(Gross income)	15
Persons not included in the above categories	25
International Financial Services Company	
a) On income from approved financial transactions with Non –residents, IFSC Companies and specified collective	15
b) All other Income	22

WITHHOLDING TAX

Withholding tax and Additional Company Tax

- Withholding tax (WHT) on dividends reduced from 15% to 7.5% with effect from the tax year June 2012.
- Additional Company tax (ACT) will not be carried forward if they are not utilised before 30 June 2011.
- Companies with financial year end other than 30 June 2011 will be allowed to set off the carried forward ACT if the dividends are declared before 30 June 2011.

Withholding tax on Rents and premiums

Payments of rent for use of land or buildings during any tax year by a resident or a non resident are subject to withholding tax at 5%.

Withholding tax shall not be applicable to:

- Payments of accommodation in a hotel, motel, guest house or lodge
- Payments of less than P36 000 per tax year
- The recipient of the payments is exempt from tax
- The rent is not to be claimed as business expenditure.

Withholding tax on mine rehabilitation fund

- Any payments made to a person who has contributed to the fund from or on behalf of any mine rehabilitation fund will be subject to withholding tax at 10%.
- The withholding tax paid is a final tax and therefore the surplus amount will not be subject to further income tax in Botswana.

The Proposed Withholding Tax rates for June 2012

Nature of payment	Rate %
Dividends (residents and non-residents)	7.5
Interest, royalties and management or consultancy fees paid to non residents	15
Entertainment fees paid to a non-resident	10
Interest paid to residents (WHT applicable on excess of P 1950 per quarter)	10
Rent paid for use of buildings and land (resident and non resident)	5
Surplus payments made on behalf of any mine rehabilitation fund after rehabilitation of a mine (resident and non-resident)	10
Brokerage commission (resident and non-resident)	10

Withholding tax – Other provisions

- Deduction of tax certificates against tax payable relating to contract revenue, interest etc, to be allowed only if the withholding has been paid to BURS.

- Further, any credit for deduction of tax paid can be claimed only in the tax year in which the tax is paid.

- The definition of commercial royalty has been expanded to include the right to commercially develop and exploit software.

- The definition of management or consultancy fee, payable to non-residents, has been expanded to include the development or customization of software.

CAPITAL GAINS TAX

- Exemption from capital gains on principal primary residence (PPR) is allowed only if the property is held by the individual for 5 years.

- Exemptions from capital gains on subsequent disposal of the PPR will be allowed if 5 years have lapsed from tax year in which the previous exemption was granted.

- Capital gains on disposal of shares, units or debentures of a resident public company is exempt from capital gains tax only if they have been held for at least 1 year by the taxpayer.

International Financial Reporting Standards (IFRSs) – Briefing for Chief Executives

Compiled by Badri Prasad, Audit Team

These concise and easy to use briefings notes are for Chief Executives, members of Audit Committees, Boards of Directors and others who want a broad overview of IFRSs and the business implications of implementing them. For the requirements, reference must be made to the Standards issued by the IASB as at 1 January 2011. Framework, Standards and Interpretation having relevance in Botswana have been analysed in this document.

IFRSs set out recognition, measurement, presentation and disclosure requirements dealing with transactions and events that are important in general purpose financial statements. IFRSs are based on the conceptual framework, which address the concepts underlying the information presented in general purpose financial statements. The conceptual framework provides the concepts from which to develop principle-based standards.

IFRSs are mandatory pronouncements as per Botswana Companies Act and comprise International Financial Reporting Standards, International Accounting Standards and Interpretations developed by the IFRSs Interpretation Financial Reporting Interpretations Committee (IFRIC) or the former standing Interpretations Committee.

The Conceptual Framework assists preparers of financial statements in accounting for transactions and events not specifically covered by an existing standard or interpretations applicable to similar and related issues, and then to the Conceptual Framework.

Title	The Standard	Impact on Business
IFRS 1 –First time Adoption of International Financial Reporting Standards	This standard applies when an entity first adopts International Financial reporting standards (IFRS). The IFRS financial statements must include an explicit and unreserved statement of compliance with IFRS.	Understand the effect of the adoption of the IFRSs on the financial statements. Understand the effect on contracts and agreements, such as remuneration agreements and covenants in finance agreements. Communicate the financial statement changes to analysts and the market.
IFRS 5 –Non-current Assets Held for Sale and Discontinued Operations	Non-current assets held for sale and discontinued operations must be disclosed separately in the financial statements.	Disclosures about non-current assets held for sale and discontinued operations are intended to assist readers of the financial statements in assessing the entity's future results and cash flows. The classifications of an asset as 'held for sale' is based on actions taken by management at or before the end of the reporting period and management's expectation that a sale will be achieved.
IFRS 7 –Financial Instruments: Disclosures	Specifies disclosure for financial instruments. The presentation and recognition and measurement of financial instruments are the subjects of IAS 32 Financial Instruments: Presentation and IAS 39 Financial Instruments: Recognition and Measurement respectively.	The significance of financial instruments for an entity's financial position and performance will be disclosed. The extent of the entity's exposure to and management of risks arising from financial instruments will be available to users of its financial statements.

Title	The Standard	Impact on Business
IFRS 8 –Operating Segments	Requires disclosure of information about an entity's operating segments, its products and services, the geographical areas in which it operates, and its major customers. The information enables users of its financial statements to evaluate its business activate and the environment in which it operates.	Many entities are diversified and/or multinational operations Their products and services, or the geographical areas in which they operate, may differ in profitability, future prospects and risks. Segment information maybe more relevant than consolidated or aggregated data for users in assessing risks and returns.
IAS 1 –Presentation of Financial Statements	Sets out overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for content. Recognition, measurements and disclosure of specific transaction and events are dealt with in other standards (and in Interpretations).	Compliance with IFRSs is presumed to result financial statements that achieve a fair presentation. Information about management's judgements with most significant effect on the amounts recognised in the financial statements and bases for estimations will be available to users of the entity's financial statements.
IAS 2 –Inventories	Defines inventories and specifies requirements for the recognition of inventory as an asset and the expense, the measurement of inventories, and disclosures about inventories.	Use of the last in, first-out (LIFO) cost formula is not permitted. The same cost formula must be used for all inventories having a similar nature and use. A difference geographical location or in tax rules does not justify use of a different formula for similar inventories.
IAS 7 –Statements of cash flows	A statement of cash flows is required as part of a complete set of financial statements. The statement of cash flows provides information about changes in cash and cash equivalents.	Cash flow information is important to users of financial statements. There should be an explanation of cash flows in any management commentary issued with the annual financial statements.
IAS 8 –Accounting Policies, Changes in Accounting Estimates and Errors	Sets out the criteria for selecting and changing accounting policies, and specifies the accounting treatment when an accounting policy is changed. It also prescribes the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of prior period errors.	Profit or loss for the current period does not include the effects of changes in accounting policies and correction of errors. Prior periods are adjusted so that they are comparable with the current period. The effect of new standards must be considered early. An entity must disclose the impact of standards that have been issued but are not yet affected.
IAS 10 –Events after the Reporting Period	Events that happen after the reporting period may affect user's interpretation of the financial statements.	Dividends declared after the reporting period are not recognised as a liability at the end of the reporting period. They were not a present obligation at that data.

Title	The Standard	Impact on Business
IAS 11-Construction Contracts	Sets out the accounting treatment of revenue and cost associated with construction contracts. It applies to contractors, including those providing services directly related to a construction project, such as project managers and architects.	Construction contracts are often long-team in nature. The contracts may be agreed one accounting period; construction activity may take place in another period (or periods); the contract may be completed in a third period. Several contracts may be completed in one period; and none in the next. The effect of IAS 11 contract profile as the work is performed rather than on completion of the contract. Expected losses are recognised immediately. Effective internal financial information is essential for an effective estimation process.
IAS 12-Income Tax	Specifies the accounting treatment for income taxes, including how to account for the current and future tax consequences.	The tax expense in the profile or loss will be an aggregate of current tax and deferred tax for the year. IAS 12 requires an explanation of the different between tax expense and tax at the applicable tax rate on accounting profile.
IAS 16 –Property, Plant and Equipment	Property, plant and equipment are tangible assets held for more than one accounting period and used in the production or supply of goods and services, or for administration. They also include assets rented to others, but not investment property.	Professional judgement will determine the period in which expenditure on property, plant and equipment is recognised as an expense, with a consequential effect on current and future profile.
IAS 17- Leases	A lease agreement that conveys to the lessee a right to use an set for a period of time. For accounting purposes, leases are classified as finance leases or operating leases. Leases are classified at the data there is substantial commitment to lease terms, i.e. at the inception of the lease.	Judgement is required to determine whether a lease is a finance lease or an operating lease. Recognition of a finance lease the statement of financial position affects the entity's gearing (debt to equity ratio) and return to total assets.
IAS 18-Revenue	Prescribes accounting for revenue from sale of goods, from rendering of services, and from the use by others of entity assets yielding interest, royalties and dividends.	The primary issue in accounting for revenue is determining when to recognise revenue. There are circumstances in which the timing of recognition of revenue requires careful consideration.
IAS 20-Accounting for Government Grants And Disclosure of Government Assistance	Specifies the accounting for government grants and the disclosure of government assistance from which the entity had directly benefited.	Disclosure of government grants and assistance is designed to facilitate comparison of the entity's financial statement with those of prior periods and other entities. The main are of judgement is whether the entity will comply with conditions attached to a government grant.

Title	The Standard	Impact on Business
IAS 21- The effects of changes in Foreign Exchange Rates	Prescribes how to account for foreign currency transaction and foreign operations, and how to translate financial statements into a presentation currency.	The functional currency of individual entities in a multinational diversified group may differ. In such cases, the financial statements of individual entities will be translated into a common presentation currency for consolidation.
IAS 23-Borrowing costs	Prescribes the accounting treatment for borrowing costs. Borrowing costs are interest and other costs incurred in connection with borrowing.	Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset from part of the asset. Capitalising borrowing costs affects profit as the asset is depreciated, or when the asset is sold.
IAS 24- Related Party Disclosures	Requires disclosures about related parties and the reporting entities transaction with related parties. The disclosures are required both in consolidated financial statements, and in the separate financial statement of a parent, venturer or investor. It also applies to individual financial statement.	Related party relationships are a normal feature of commerce and business. A related party relationship may affect an entity's profit or loss and financial position. IAS 24 deals with disclosure, but not measurement of related party transactions. Discloure about related party transactions can state that the terms are equivalent to those in arm's length transctions, but only if there is evidence for that.
IAS 27-Consolidated and Separate Financial Statements	Addresses consolidated financial statements. It also discusses accounting for investments in subsidiaries, jointly controlled and associates, when the investor presents separate financial statements. Aims to enhance the relevance, reliability and comparability of the information that a parent entity provides for a group of entities under its control.	Judgements in the context of all available information are required to determine whether control exists. IAS 27 applies to all entities, including venture capital organisation, mutual funds, unit trust and similar entities.
IAS 28-Investments in Associates	An associate is any entity over which the investor has significant influence.	Investors must exercise judgement in the context of all available information to determine if they have significant influence over an investee.
IAS 31- Interests in Joint Venture	Specifies the accounting and reporting of joint ventures. The essential element of a joint venture is contractual agreement which establishes joint control of an economic activity.	Investors must exercise judgement in the context of all available information to determine if they exert joint control over an investee.

Title	The Standard	Impact on Business
IAS 32- Financial Instruments; Presentation	Establishes principles for presenting financial instruments as liabilities or equity and for offsetting financial assets and financial liabilities.	Some financial instruments take the legal form of equity, but are liabilities in substance and under IAS 32. For example, shares with mandatory redemption requirements and units in a mutual fund that are redeemable or can be put to the issuer for cash are classified as liabilities. However, exceptions apply.
IAS 33- Earnings per share	Deals with the calculation and presentation of earnings per share (EPS).	EPS is an important measure in the analysis of financial statements. It is used for example, in the calculation of price/ earnings ratios and other multiple-based business valuations.
IAS 34-Interim Financial Reporting	An interim financial report is a complete or condensed set of financial statements for a period shorter than a financial year.	Timely and reliable interim financial reporting provides information about an entity capacity to generate earnings and cash flows, and about its financial position.
IAS 37- Provisions, Contingent Liabilities and Contingent Asset	This standard distinguishes between provision and contingent liabilities. A provision is included in the statement of financial position at the best estimate of the expenditure required to settle the obligation at the end of the reporting period.	IAS 37 restricts the circumstances in which a provision can be recognised. It does not allow a provision to be created for the possibility of something occurring in future. There must be a present obligation (a liability) at the end of the reporting period.
IAS 38- Intangible Assets	Sets out criteria for the recognition and measurement of intangible assets, and required disclosures about them.	Expenditure on internally generated intangible will often be an expense. There are few active markets for intangible assets. Therefore it will be rare for an intangible asset to be revalued.
IAS 39- Financial Instruments: Recognition and Measurement	Established principle for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.	A financial instrument is recognized in the financial statements when the entity becomes a party to the financial instrument contract. A financial asset or liability is measured initially at fair value. Subsequent measurement depends on the category of financial instrument. Some categories are measured at amortised cost, and some at fair value.
IAS 40-Invest Property	Investment property is land or a building (including part of a building) or both, held to earn rentals or for capital appreciation or both. It is not owner-occupied, and is not used in the production or supply of goods and services, or for administration. It is not property that is for sale in the ordinary course of business.	The choice of fair value or cost will affect the timing of the recognition of changes in the fair value of investment property in the entity's profile or loss. Entities may change accounting policies if this will result in a more appropriate presentation. IAS 40 indicates that changes from the fair value model to the cost model is unlikely to be appropriate.

Chat line

Promotions

Partner

Anju Suresh has been promoted as Partner from January 2011. Anju is in charge of the Corporate Services team and has been spearheading the team for the last 10 years. Anju has grown with the firm for 16 years and is an expert in providing consultancy services to listed companies, privately held businesses and corporates.
Anju shall also be taking the responsibility of Business Development for the Firm.

Senior Managers

Aparna Vijay – Corporate Services team.
Sunny Mulakulam – Audit team.

Managers

Sangeeta Aswin – Accounting team

Assistant Managers

Raphinos Mushayavanhu – Audit team
Badri Parasad – Audit team
Samuel Muzonzi – Audit team
Rebecca Sanchez – Tax Team
Congratulations and Best wishes to all of them.

Achievements

Moakofi Notha, one of our Audit staff, has won a prestigious title of FIDE MASTER in chess. This has been awarded by the Federation International De Echecs, the master organisation who conducted the Zone 4.3 chess championship recently.

Fide Master title is two steps behind the Grand Master Title, including the current winners there are only 4 Fide Masters in Botswana.

We wish him all the best in his future ambitions.

Professional Training

Vijay Kalyanaraman – Partner, Advisory services attended the International Advisory Services Conference held at Frankfurt recently. He was one of the few representatives from Africa who participated in this conference.

Audit Training – 11 members from our Audit team including 10 Batswana attended the Annual Audit Methodology training conducted by Grant Thornton National Training Academy in Roidevally, Pretoria. This training held in February helped the participants to be skilled with the latest audit tools of Grant Thornton.

International Women's Day

Our firm celebrated the International Women's day on March 8. All women members of the firm were given surprise treats in the office that morning . Grant Thornton's International Business report on Women in business was released globally by participating Grant Thornton firms including Botswana. The day made every women at Grant Thornton feel very special.

Welcome

Welcome to all our new recruits who recently joined our firm. We wish them best wishes for a successful career with Grant Thornton.

Accountants Act 2010

The Accountants Act No 12 of 2010 has come into effect on 1 April 2011. The new Act which replaces the old Accountants Act of 1988 aligns the profession with modern international best practice. The Botswana Institute of Accountants will be called the Botswana Institute of Chartered Accountants (BICA).

The Act emphasizes the principle of Public Interest Protection and accordingly requires all Professional Accountants in Botswana to register with the Institute. Significant penalties will be levied on those who choose not to register, and hold out as professional Accountants when one is not a professional Accountant. The act strengthens the institutional capacity of the new professional body by creating two new senior positions at director level and also comes up with a robust disciplinary process to promote transparency and also protect member's rights under this highly regulated environment.

The new Act establishes the Botswana Professional Accountancy Qualification which is bench marked against the Institute of Chartered Accountants in England and Wales (ICAEW).

BICA have requested members of the public to only use members of BICA for the provision of professional accountancy and related services as these members are registered, monitored and regulated.

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