

Examiner's report

F6 Taxation (BWA)

December 2011



General Comments

The general standard of candidates' answers was better than average with those candidates that were well prepared scoring high marks. However, some candidates appear to have been very unprepared and obtained disappointing marks. The paper was considered to be very reasonable and there were plenty of marks on offer to those exhibiting good technical competence.

The paper consisted of five compulsory questions. One question was for 25 marks, another for 30 marks and the remaining three for 15 marks each. Questions 1 and 2 count for 55 marks and so therefore should be given priority by candidates since it is performance in these two questions which will ultimately determine the difference between passing and failing.

No particular question stood out as being difficult and reasonable marks were achieved on all questions. The greater part of the paper consisted of computations with very little discussion but it should be recognised that discussion questions have a place in this paper and they require a good command of English in addition to technical ability. In general candidates performed the computational questions satisfactorily.

There were very few indications of time constraints and the majority of candidates completed all the questions. It is imperative that candidates answer ALL questions in order to give themselves a reasonable chance of passing and this involves careful time management. The number of crossings out of whole or part answers is a concern as this takes up valuable time and reduces time on other questions. A number of candidates left Questions 1 or 2 to the end and then struggled against the clock. It is strongly suggested that the questions that carry the most marks are not left to last.

Specific Comments

Question One

This question related to a business partnership which is a slight variation on the usual individual carrying on a business. The partners carried on business as consulting engineers and had income from other sources. The question required candidates to ascertain the partnership chargeable income and then to calculate each partner's taxable income. The computational part of the question was well handled and most candidates scored good marks. Part of the question was a discussion on the future deductibility of tax losses and this was not so well answered; the main point about partnership losses is that they are ring-fenced and can only be set-off against future partnership profits.

This question will invariably consist of a business tax computation which then has to be added to other sources of income some of which are taxable and some of which are exempt. In general candidates performed well

It would appear that many candidates rushed into the answer and then only afterwards realised that there were workings that had to be performed. The workings should be completed first before attempting to answer the question and workings should always be shown in full as marks are awarded for these. Some candidates attempted to short-cut the answer and did not score marks as a consequence.

Some candidates ascribed a housing benefit to each of the partners but this is not correct. The housing benefit only applies to employees and partners do not qualify as such because they are proprietors. Partners must therefore pay for their own house rent and this was achieved by adding back the rental payments in the tax computation. However, it should be noted that partners can have a car benefit from a partnership.

Question Two

This question is a fixed question on corporate tax and will always contain a tax computation. However, because of changes in the legislation effective 1st July 2011 which, *inter alia*, abolishes ACT and withholding tax set-offs, care was taken not to include this aspect in the question, as the cut-off date for examinable legislation was 30 September 2010. Note that ACT will not be examined in future papers.

Most candidates answered this question well and scored good marks. There appears to have been significant improvement in dealing with tax computations but many are still making fundamental errors in the computation. The starting point is the profit or loss per the accounts that is provided in the question and then followed with adjustments for amounts that are not tax deductible, those allowances which are deductible for tax purposes and exempt income. A number of candidates adjusted for rent, office expenses, salaries etc and many adjusted for interest received and interest paid. If an expense, such as office expenses, is deductible for tax purposes then there is no adjustment required. (Note that from June 2012 onwards interest paid to non-residents will only be deductible if the withholding tax has been paid and accordingly such interest will be an adjustable item).

Most candidates fared well with the first part which involved roll-over relief in respect of a balancing charge. As in question 1 above there were workings to be performed before the answer could be tackled but most went straight into the answer and missed out the disposal gain on the sale of shares. Again it is strongly recommended that the workings are performed before attempting to undertake the tax computation. As it was, most candidates scored well on this part of the question since marks are not deducted for the incorrect adjustments mentioned above.

The majority of candidates were not very well prepared on the SAT payment requirements and the short discussion part could have been better answered.

Question Three

This question combined capital gains with VAT and the purpose was to test candidates VAT knowledge on the sale of capital goods. The calculation of capital gains in Botswana is reasonably straightforward and most candidates did well here and were aware of the fact that bonds listed on the Botswana Stock Exchange are exempt.

For VAT, all supplies are liable to VAT including the sale of capital items such as immoveable property and plant and machinery. The sale of bonds is the same as a sale of shares and is classified as a financial service and is therefore an exempt supply. The sale of a going concern business is zero-rated and the sale of a saloon car is not liable since the original input was prohibited. Again most candidates handled the part of the question satisfactorily.

Question Four

A farming tax question combined with income from a non-farming business. Candidates were required to demonstrate knowledge that a farming loss can be deducted from other income – 100% of the loss if the loss is less than 50% of chargeable income, and only 50% if the loss is greater than 50% of chargeable income.

The majority of candidates performed satisfactorily on the two tax computations but got very confused on the set-off of the farming losses. In this case the current year farming loss was less than 50% of the chargeable income from the shop and so was deductible in full. If the farming operation was transferred to a company then no set-off against other income would be permitted which makes a company the least preferred vehicle to carry out farming. Many candidates stated that farming losses can only be carried forward for future offset for five years but this is incorrect as farming losses are carried forward indefinitely.



Many candidates were guilty of claiming full allowances for all capital expenditure. Only farming capital expenditure can be claimed in full such as fencing, dams and farm buildings. Other capital assets such as vehicles and shelving are subject to capital allowances in the normal manner.

Question Five

This question related to employment income with Timothy leaving one employer and joining another in the same tax year. It was necessary to calculate how many months Timothy worked for each employer and to calculate his earnings and benefits accordingly but many candidates missed this aspect. Benefits must be apportioned if they are only received for part of the year.

Most candidates were aware of the fact that dividends received do not fall within gross income but some still claimed the withholding tax as a credit. The withholding tax on dividends is a final charge to tax and no credit can be claimed. Many missed the point that purchasing an asset below market value constitutes a benefit and that Timothy's personal pension contribution was an allowable deduction.

On the whole good marks were scored on this question.