# Examiners' report

## F6 Taxation (BWA)
## June 2008

**Introduction**

The overall standard of candidates' answers was generally above average with the majority of candidates scoring reasonable marks. There does still appear to be an overall fundamental weakness with the mechanics of a tax computation and this has been an ongoing observation for some time now and must be addressed going forward.

**General paper comments**

This was the second F6 paper and consisted of 5 compulsory questions and it was apparent that candidates are beginning to settle down with the new format. One question was for 25 marks, another for 30 marks and the remaining three for 15 marks each. The majority of marks are contained in questions 1 and 2 and it is here where candidates must ensure and demonstrate their proficiency but some candidates were let down by their inability to properly perform tax computations. Both questions will involve tax computations in one form or another and so candidates must understand the basics of a computation if they are to succeed. All except a few candidates attempted all questions within the time.

In general candidates did not fare well on narrative questions and virtually all answered the compliance questions incorrectly. In some cases the workings of candidates were either not shown at all or were badly set out. Candidates are encouraged to show their workings as clearly as possible so that some marks can be awarded if the principle is correct.

**Question 1**

This question related to an individual or partnership that is carrying on a business and was designed to test a candidate's ability to prepare tax computations of business income. A fairly straightforward question which was generally well answered by most candidates. Very few candidates were aware that a salary and interest paid to a partner in a partnership are effectively a distribution of profits and must be added back to arrive at the taxable chargeable income of the partnership. There was some uncertainty in the calculation of employment benefits even though this information was provided. Most candidates did reasonably well on the farming leg of the question although very few were aware that the current year farming loss is limited to 50% of total chargeable income.

**Question 2**

The question related to a corporate situation.  Since it is the question that carries the most marks in the paper it is one where candidates should spend sufficient time and effort, however this question was not well answered and indicated a lack of exam preparation in company tax computations. This question is almost certainly going to require a tax computation and so candidates must ensure that they have sufficient proficiency in this area. The first part of the question was the calculation of capital allowances, which should be fairly straighforward but the majority of candidates did not approach the question in a methodical manner. Candidates should first build up the overall cost of assets by group and establish the final cost and then apply the capital allowance rates to the final cost. Equally the accumulated capital allowances should be built up in the same manner so as to establish the final amount and then determine the tax values carried forward. It should be noted that this type of exercise is undertaken every year for each taxpayer in practice and so a thorough understanding of the mechanics of capital allowances is essential. Only a small number of candidates realised that the rollover relief had to be applied to the sale of the machine and that the balancing charge went to reduce the cost of the new machine.

There was a small capital gain calculation in the question which some candidates picked up on but they did not take the calculation to finality by applying the 25% allowance and deducting the loss brought forward. Many candidates did not add back the fair value adjustment in the tax computation and should be aware that this adjustment is now a standard line item in financial statements where IFRS is applied. A fair value adjustment is where the company values its assets either upwards or downwards but it has no tax effect as all tax calculations are done on original cost of the asset.

**Question 3**
This was a capital gains tax (CGT) question which tested candidates' knowledge of the different methods of calculating CGT on immoveable and moveable property. It was generally well answered by the majority of candidates. However, very few were aware of the holdover relief provisions that relate to mergers and acquisitions and confused them with rollover relief provisions but it should be noted that there are no rollover relief provisions in respect of shares and debentures.

**Question 4**
This was a VAT question and these should normally offer candidates an opportunity to score good marks as most of these questions involve computing a VAT liability, however this is often not the case. Very many candidates did not appreciate that the figures were inclusive of VAT and simply applied 10% to ascertain the amount of the VAT. In any VAT question candidates must know which inputs are allowable and which are not. For instance there is no VAT on salaries, interest and pension deductions; input tax is denied on company cars and there is no VAT on imported services provided the input is used in the furtherance of a taxable activity.

**Question 5**
This question dealt with the thorny old issue of dividend withholding tax and its interaction with ACT and tested candidates' knowledge on the set-off rules. In order to calculate the withholding tax payable one must first apply any ACT brought forward and only when that has been exhausted is any withholding tax payable which can then be deducted from the current year ACT. Although it is a somewhat complicated area of Botswana tax, candidates are encouraged to ensure that they have a reasonable understanding of the subject because it will come up in one form or another in just about every tax paper and it comes up regularly in practice.