



Examiner's report

F6 Taxation (BWA)

June 2009

General Comments

The paper consisted of five compulsory questions with Questions 1 and 2 totaling 55 marks and then three questions of 15 marks each. In order for a candidate to be successful in this paper it is essential that reasonable marks are scored in Questions 1 and 2. Unfortunately this was not the case at this sitting with far too many candidates recording low marks on these two questions. This paper was not considered to be any more difficult than previous papers and so the low marks are disappointing.

Specific Comments

Almost all candidates attempted all five questions but there was some indication of poor time management and rushing the answers at the end. One observation is that quite a lot of candidates at the beginning of the exam start on a question and then after some time cross everything out and start all over again losing valuable time. Such practices will definitely increase the pressure on the candidate towards the end of the paper. Candidates should consider starting the exam with one of the easier questions and then moving on to the more complex questions as their confidence increases.

The paper as a whole was not well answered and many candidates appeared to have been very under-prepared for this paper. Many candidates had problems with questions 2 and 4 and yet these two questions were on topics that are encountered on a regular basis in practice. Certain of the questions required preliminary workings such as the determination of a balancing charge before proceeding with the main part of the question. Whilst most candidates showed their workings they were often difficult to follow and were not set out in a logical sequence. However, there were often errors in the workings that made it difficult to obtain a sensible answer in the main part of the question. Once again candidates struggled with the basic concepts of a tax computation the understanding of which is absolutely essential to passing a tax paper. The starting point in any computation is the book profit or loss and then certain items are disallowed for tax purposes and then there are special tax allowances and significant marks are normally awarded for the correct determination of these adjustments. Since the introduction of IFRS accounting there are generally now more adjusting items in a tax computation than there used to be and candidates must be aware of these if they are to succeed.

Most of the questions contained a part that required a narrative answer but many candidates continue to not do very well on narrative and compliance questions. No paper will entirely consist of arithmetical calculations and candidates should be prepared for questions that require narrative answers.

Question One

This question was about an individual who also owned a farm and for the most part was answered fairly well with many candidates scoring good marks. There were, however, a number of common errors. Most candidates expensed the cost of the air conditioners instead of capitalising them and the claiming capital allowances. The expenditure incurred on the flats should have been proportionately reduced to take account of the brother that was living in the flats rent-free; the logic here is that one can only claim expenses that are incurred in the production of income. Far too many candidates brought dividend income into charge and claimed a credit in respect of withholding tax suffered. Dividends earned from Botswana companies do not fall within the definition of gross income and are accordingly not taxable and equally a credit cannot be claimed in respect of withholding tax suffered. Most candidates were not alive to the fact that there is a separate tax table in respect of capital gains for individuals.

Question Two

This question was badly answered indicating the age-old problem that many candidates do not fully understand the mechanics of a tax computation. It cannot be emphasised enough that a good understanding of how to perform a tax computation, whether for a company or for an unincorporated business, is absolutely fundamental if a candidate is to pass this exam and succeed as a professional accountant in practice. Candidates were required to do a number of workings prior to performing the tax computation and many missed the rollover relief calculation in respect of the sale of the property. The actual tax computation was not performed well and there is

significant scope for improvement on this aspect. Candidates must be aware of the various types of income and expenditure in the accounts of companies that will need to be adjusted in a tax computation – for instance depreciation and the profit and loss on the disposal of an asset will always need to be adjusted. The advent of IFRS accounting means that such items as fair value and impairment adjustments will also feature in a tax computation. Once again candidates struggled with the interaction of ACT and set-off of withholding tax which, although a difficult concept to grasp, is an integral part of our tax system and therefore needs to be understood.

Question Three

A farming tax question which was answered reasonably well with the majority of candidates correctly claiming the capital expenditure. However, most candidates did not correctly calculate the capital allowances and balancing charge. Also many were not aware that the set-off of a farming loss against other sources of income is limited to 50% of total chargeable income.

Question Four

Surprisingly this question was very badly answered since it was largely of an arithmetical nature. Ascertaining the tax written down value of assets is essentially no different from ascertaining the net book value of the same assets and so should not present any major problems. It is necessary to establish the cost at the end of the year after accounting for additions and disposals and in this case an addition of a new asset was reduced by the amount of rollover relief, something which many missed. A similar exercise then needs to be carried out to establish the accumulated capital allowances at the end of the year remembering to add back the capital allowances on the disposals. In relation to a building the balancing charge is limited to the actual allowances granted the reason being that any excess of the selling price over the tax cost will fall to be taxed as a capital gain.

Question Five

This type of question is generally one where candidates can score good marks. Candidates were required to categorise various types of transactions into the three types of output – standard-rated, zero-rated and exempt. Many mixed up zero-rated and exempt transactions: the distinction is important when it comes to apportionment of inputs. Candidates must read the question which stated that the figures were “inclusive” of VAT in which case they must be divided by 11 to get to the VAT amount. The impression was that there was quite a lot of guesswork in the answers.