Examiner's report

F6 Taxation (BWA)
June 2010

General Comments
The general standard of candidates' answers was good with the majority of candidates exhibiting a reasonable technical ability. This appears to be largely due to the fact that the majority of candidates were well prepared, particularly in the area of the mechanics of a tax computation which is fundamental to this paper. This has resulted in a good level of marks being scored.

The paper consisted of 5 compulsory questions. One question was for 25 marks, another for 30 marks and the remaining three for 15 marks each. The content and format of questions 1 and 2, which carry a total of 55 marks, is much the same each year and so candidates know what to expect and can prepare accordingly. Central to an understanding of taxation is an understanding of the mechanics of a tax computation starting with the accounting profit and then adding back disallowable expenses and deducting tax allowances. This paper is largely designed to test the candidate's knowledge in this area and so candidates must have a reasonable proficiency at performing tax computations if they are to pass. In this paper there were in fact three questions which called for tax computations and those that were well prepared, and this appears to be the majority, had little difficulty in obtaining a pass.

Difficulty was experienced by most with Question 4. There will often be a difficult question or part question in any exam and so candidates should identify it and possibly leave it until last and concentrate on those questions that carry the majority of marks. Although not many marks were scored on this question most candidates had scored sufficient marks on the other questions.

Specific Comments

Question One
This question related to an individual or partnership that is carrying on a business. This question will always require a tax computation and will contain add-backs (non-deductible expenditure) to test the candidate's knowledge of allowable expenses. It is often the case with individuals that their personal income and expenditure becomes mixed up with that of the business and so has to be separated for the purposes of the tax return. It is therefore likely that the tax computation will require add backs of personal drawings and other non-business expenditure.

Most candidates answered this question quite satisfactorily. Individuals can have income from a number of different sources – e.g. rent received, salary, business income etc – and it is necessary to separate these out whereas with a company the income is deemed to be all from one source. The reason for identifying different source income is because certain losses are ring-fenced; for instance a rental loss can only be set-off against future rental income.

Part of the question related to value added tax (VAT). Whereas for income tax purposes income from different sources needs to be separately identified, there is no such requirement for VAT. Too many candidates claimed input tax on personal and payroll related expenses.

Question Two
This question is a fixed question on corporate tax and like Question 1 above will always contain a tax computation. In addition, it can be anticipated that it will also contain consequential tax issues such as the interaction of ACT and withholding tax on dividends and the payment of any tax due.

This question, which has presented difficulties in the past, was generally well answered by most. The accounts in the question contained quite a number of accounting concepts that are now seen regularly with the application of IFRS – e.g. lease smoothing and asset impairments – which have to be adjusted in the tax computation and most candidates rose to the challenge. The advent of IFRS is making tax computations more complicated because of the fact that the new accounting concepts are becoming more divergent from the concept of taxable income and this causes more adjustments in the tax computation. But for candidates that are well prepared these types of questions generally yield good marks.

Even the ACT – dividend – withholding tax issue, which always presents a challenge, was fairly well tackled.

Question Three
A capital gains tax question involving both shares and immoveable property did not present too many problems for most. Different calculations are applied to the two types of assets in order to arrive at the capital gain and this was well handled. Some candidates spoilt their answers by deducting capital allowances which is not correct in determining a capital gain.

In any capital gains tax question there is most likely to be a part on the roll-over provisions. This question specifically brought into play the two types of rollover relief – namely a capital gain rollover where the gain is deducted from the new property (note that a capital gain rollover only applies to immoveable property and not to shares). The other rollover is the balancing charge arising on the sale of, say, a machine can be deducted from the cost of a replacement machine. Most were aware of the rollover relief available on the moveable assets but some missed out on the rollover relief available on the property.

The calculation of capital gains in Botswana is not very complicated compared to some other countries and so good marks can be scored with this type of question.

Question Four
Quite a difficult question and most struggled with it. The question dealt with the losses from different sources (for individuals) and their application against different sources of income. The basic rule is that a loss from a particular source of income – e.g. rents – is ring-fenced and cannot be applied against other sources of income. So a rental loss cannot be set-off against current year employment income and can only be set-off against future rental income.

The exception to the rule is farming losses which can be set-off against other sources of income. However, the set-off is limited to 50% of the aggregate of chargeable income. Many candidates claimed 50% of the loss instead of 50% of the chargeable income.

Question Five
A farming tax question that was mostly well answered. Candidates were required to calculate the closing stock of cattle in order to calculate the value of the closing stock and surprisingly many did not do this correctly. Farmers are given favorable tax allowances and are allowed to claim their total farming capital expenditure as a deduction. Most got this right.

Again many were not aware of the fact that a farming loss is limited to 50% of chargeable income and not 50% of the loss.