Examiner's report
F6 Taxation (BWA)
June 2011

General Comments
The general standard of candidates' answers was below average with the majority of candidates exhibiting insufficient technical ability and failing to score good marks when they were available. A greater than normal percentage of candidates appeared not to be very well prepared for this exam. Those that were well prepared had no problem in scoring sufficient marks to pass.

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. As questions 1 and 2 count for 55 marks candidates should ensure that they give priority to these both during the exam, and before, when they are preparing for the exam. Good marks in these two questions will most likely ensure a pass.

Difficulty was experienced by most with Questions 1 and 5 which both dealt with the taxable earnings of individuals. One question related to an individual carrying on a business and the other related to employment income. Possibly there has been more emphasis on companies and corporate tax computations in the past and less emphasis on individuals, but candidates must be prepared for both. Most working individuals will be taxpayers at some time in their life whether they are entrepreneurs or employees

Whilst the majority of candidates completed all the questions the number of crossings out of whole or part answers is a concern as this takes up valuable time and reduces time on the remaining questions. Candidates should consider identifying what they consider to be an easy question and deal with that first so as to get over any exam nerves and then move on to those questions that carry the most marks. Do not leave either Questions 1 or 2, which contain the majority of the marks, to the end when time is running out. Leave the most difficult question to last.

Specific Comments

Question One
Question one always relates to an individual who is usually carrying on a business. In this case Jane had sold her business and so part of the question related to the capital gains tax liability arising on the sale, which was not well answered. It was necessary here to identify those transactions that are liable to capital gains tax and the majority was not aware of the fact that only the sale of goodwill is so liable and then it is treated in the same manner as a sale of shares. The sale of other assets such as inventory and debtors is not liable to capital gains tax. Jane also sold some shares, in addition to her business, and candidates were required to demonstrate that the loss incurred on the one sale could be set-off against the gain on the other.

The majority of candidates did not do well on the part relating to VAT and did not identify that the sale of fixed assets and inventory are liable to VAT, whereas the sale of debtors and goodwill are not so liable.

Question Two
This question is a fixed question on corporate tax and 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 included very generous marks on calculating capital allowances on the lodge assets and this was more of an arithmetical exercise than the testing of tax knowledge. Many candidates launched into the calculation of the capital allowances first and only dealt with the disposals afterwards and as a consequence did not get the correct answers. It was necessary to calculate the balancing charge or allowance first in case rollover relief could be applied and the question hinted that it would apply. If rollover relief was applied then the cost of the new replacement asset was reduced and the capital allowance was also reduced. This part was worth 18 very straightforward marks and all candidates should have scored well, but far too many did not take maximum advantage of this opportunity.

The second part of the question dealt with the traditional company tax computation and this was reasonably well handled by most candidates. The majority of candidates are now well versed in the notion that IFRS adjustments and compliance do not impact on the tax position of companies. As has been said many times before, a good understanding of the mechanics of a tax computation is essential in this paper as it can be tested not only in this question but in others as well.

Question Three
This was an explanatory type question relating to gross income; in other words the types of income that are liable to tax. Generally this was fairly well answered by the majority of candidates. Some candidates appear to waste a lot of time by writing out the whole question instead of immediately attending to the answer. This type of question calls for an explanation as to why certain receipts are considered to be gross income and a response such as "No it does not fall into gross income" is not sufficient and will not attract full marks even though it might be technically correct.

Some candidates discussed whether the expense was a disallowable deduction or tried to justify whether the receipt fell into gross income by the deductibility of the expense. This question was solely about income and no discussion was asked for on corresponding expenses.

It is to be expected that there will be at least one such question in every paper which requires a written answer as opposed to a computational type answer. It is therefore important that candidates express themselves well in English.

Question Four
This was a VAT question, which was well answered by most. Candidates were required to categorise transactions into standard-rated, zero-rated and exempt. A good understanding of the VAT classification of transactions is essential in order to correctly calculate a VAT liability. This was a straightforward question and all candidates should have scored well here.

Almost all candidates did not know the requirements for claiming an input tax credit on imports. Given that Botswana imports the vast majority of its goods, one would have expected a better response.

Question Five
This question related to employment income and although it is the first time a full question has been given to this subject it could have been better answered. This should not be a particularly difficult subject because employment income is reasonably straightforward to determine but where there might be a challenge is in determining those deductions to which an employee is entitled to.

The first part of the question called for a calculation of Justin's remuneration from employment or to put it another way the cash remuneration which consists of salary, commission and allowances. The second part of the question related to the calculation of taxable income which includes non-cash benefits such as the provision of a company car. Many candidates included the company portion of a pension contribution as part of Justin's taxable remuneration. Pension contributions do not constitute a benefit or taxable income.

The majority of candidates completely missed the allowable deductions that Justin was entitled to claim such as his pension contribution and a claim for capital allowances on his car since he earned commission income.