Examiners' report

F6 Taxation (BWA)
December 2007

Introduction
The overall standard of candidates' answers was generally good, 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 accordingly maximum marks were not achieved.

General paper comments
This was the first F6 paper and consisted of 5 compulsory questions. One question was for 25 marks, another for 30 marks and the remaining three for 15 marks each. Well prepared candidates managed to score very high marks for most of the questions. The majority of marks are contained in questions 1 and 2 and it is here where candidates must ensure and demonstrate their proficiency. However too many candidates were let down by their inability to perform tax computations effectively. All except a few candidates attempted all questions within the time given although what was surprising was the number of candidates who started an attempt on questions and then cancelled them and started over again.

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. In the context of Botswana it is likely that this question will contain an element of farming which this one did. The question also tested candidates' abilities in computing capital allowances and performing a tax computation and overall the standard was poor.

Calculating capital allowances should be fairly straightforward and yet the vast majority of answers were incorrect. Candidates are encouraged to use a systematic approach and work through from the opening cost to the closing cost and again the opening allowances to the closing allowances ensuring the reversal of allowances in respect of assets sold.

The question called for a tax computation and there are two ways that this can be done. Firstly the computation can show the income that is taxable less the expenses that are deductible arriving at chargeable income or secondly one can start with the accounting profit and reconcile to the chargeable income and it is the latter which most candidates chose. The majority of candidates demonstrated a lack of understanding of a reconciliation and included those items that were taxable or deductible anyway. A reconciliation will only contain those items that are adjustable – eg depreciation and capital allowances and other non-deductible items. Most candidates did not do well in this respect.

Question 2
This question relates to a corporate situation and carries the most marks in the paper and therefore should be one of most importance. This question is likely to contain capital gains tax and/or VAT in addition to a tax computation.

As in question 1 above the majority of candidates performed poorly on the tax computation which is surprising since this area is fundamental to the whole subject and will definitely be examined. Also other questions follow on from the tax computation – eg dividends and withholding tax.

Most candidates obtained full marks on the calculation of the capital gain but many candidates failed to claim rollover relief on the sale of the building although the requirement was in the question. The correct claim for capital allowances on the new building can only be made if the rollover calculation is correctly computed. Those that did try to claim rollover relief got the calculation very wrong – the capital gain arising on the sale of the old building can be set-off against the cost of the new building.

The interaction of ACT and withholding tax in respect of dividends is a difficult area of Botswana tax but most candidates handled it well and deducted the ACT credit from the withholding tax payable.

The VAT part of the question was not well answered. A transfer of immoveable property can be zero-rated if certain conditions are met.

Question 3
This question tested candidates' proficiency in the area of capital gains tax of both immoveable and moveable property. Overall candidates answered this question well and obtained high marks.

Capital losses can be set off against other capital gains during the year but the 25% moveable property allowance can only be claimed against the net gain and not on individual gains. Also some candidates made the mistake of claiming the allowance against disposal losses.

In order to calculate the capital gain on the part sale of the shares in Shamrock the candidate was required to calculate the cost of the shares being sold as purchases had been made over a period of time at different prices.

Question 4
This was a VAT question and was one where candidates could score maximum marks.

A surprising number of candidates were not aware of the three types of supplies namely standard, zero-rated and exempt.

Most candidates scored good marks on the preparation of the VAT return although some still claimed deductions for residential rent which is an exempt supply and entertainment which is a prohibited input.

Most candidates were aware of the fact that input deductions can be claimed on capital purchases – eg trucks and extensions to commercial buildings.

Question 5
A difficult question and most candidates struggled with this one. The question tested candidates' knowledge on the treatment, carryforward, ring-fencing and set-off of losses.

In respect of companies the losses from all businesses are aggregated with the exception of farming, mining and capital gains which are computed separately and carried forward separately. This question related to an individual and so the ring-fencing comes into play – for example a loss arising from rental cannot be set-off against employment income and instead is carried forward to be set-off against future rental income. Equally the same with the loss from the photographic business. On the other hand, 50% of a current year farming loss can be set-off against employment income.

In this question in 2006 the farming chargeable income is set-off against the farming loss brought forward but in 2007 the farming loss can be set-off against employment or other income.

Many candidates were mistaken in including dividend income in chargeable income. Dividends from a Botswana source do not come into charge whereas dividends from a non-Botswana source do come into charge.