



Examiners' report

F6 Taxation (BWA)

December 2008

Introduction

The overall standard of candidates' scripts indicated a significant improvement with the majority of candidates scoring above average marks and some scoring very high marks. The improvement in performance is largely attributed to the fact that candidates are concentrating on the mechanics of a tax computation.

General paper comments

All businesses must submit tax computations every year and accordingly the mechanics of tax computations is a critical area of tax and one that will be examined thoroughly. The first two questions make up 55% of the total marks of the paper and will almost certainly contain a requirement to perform a tax computation, and accordingly this is an area in which candidates must have sufficient proficiency if they are to succeed. Overall there was a noticeable improvement in the standard of tax computations performed by candidates indicating that the correct level of importance is being given to this area.

Candidates continue not to do so 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.

In computation questions, where a candidate considers that an amount is not taxable or is not deductible then this should be shown as a "0" in the computation in order to demonstrate the candidate's knowledge, rather than just leaving it out altogether.

Question 1

The question concerned a farmer. Farming tax is a specialised area but has topical importance in Botswana due to the significance of the cattle industry. A farmer carries on a business and is therefore required to report income and expenses but farmers are given special concessions particularly in the area of the expenses that they can claim. Generally the question was reasonably answered with most candidates aware of the capital expenditure that can be claimed by farmers in the year it is incurred. However, far too many candidates added back depreciation and drawings in their computations; this was unnecessary as the starting point was not a farming profit derived after the deduction of depreciation and drawings. Most candidates incorrectly deducted the farming loss brought forward from other income. A farming loss brought forward can only be deducted from farming income.

Question 2

The company tax question, which carries the most marks, was well answered by most candidates and good marks were scored. However, it should be said that the tax computation was not the main focus of the question. It was encouraging to see that many got the dividend withholding tax set-off treatment correct. Self assessment tax (SAT) payments are made every 3 months after the beginning of the company's financial year with a final payment being made 4 months after the year end. The minimum payment is 20% of the final liability. The value added tax (VAT) portion of the question required the candidate to demonstrate those items which are subject to input and output tax and those which are not. In this respect non taxable items should be included and "0" put next to it.

Question 3

A capital gains tax question which also dealt with the balancing charge or allowance, that will always arise in practice, with the disposal of an asset. The capital gain part was answered well with most candidates being aware of the 25% moveable property allowance also applying to goodwill. However, many candidates did not fare well on the balancing charge part of the question. The balancing charge in respect of the disposal of a

building is limited to the actual allowances that have been granted otherwise there will be effective double taxation when taken together with the capital gain.

Question 4

This question related to the comparison of employment packages. Virtually all candidates calculated the tax on both packages. What was then required was a “take home pay” comparison – i.e. a calculation of the cash package less tax. However, the majority of candidates gave a narrative answer which was not what was required.

Question 5

This question related to the deductibility of various types of expenditure and a narrative answer was required. On the whole this was not very well answered. Candidates must give their reasons why certain expenditure is either deductible or not; it is not sufficient to merely state that the expenditure is non-deductible.