Examiner’s report
F6 Taxation (BWA)
December 2009

General Comments
The overall standard of candidates’ answers was somewhat disappointing with a number of candidates achieving low marks. An ongoing problem with this paper appears to be a lack of understanding by many candidates of the mechanics of a tax computation which is essential if a pass is to be obtained.

The paper consisted of five 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. In both cases the tax computation is the central part of the question but many candidates seem to struggle with this. In particular the question on corporate tax was not well answered indicating that the tax computation is an area where a lot more time must be spent by candidates in their preparation for this paper. Those candidates that were well prepared do not appear to have had any difficulty in obtaining a pass.

Question 4 was admittedly difficult. There was some indication of time pressures and for this reason candidates should not leave the questions that carry the most marks to the end. It is quite acceptable to start the exam with a question that the candidate considers to be straightforward so as to overcome any nerves but it is suggested that the time-consuming Questions 1 and 2 are tackled immediately after that.

The practice of some candidates of writing out the question before attempting the answer is not encouraged as it wastes valuable time and equally it earns no marks.

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 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 satisfactorily. Many did not know how to deal with the condemned stock which is a deduction since it can never be sold and is now obsolete. Far too many candidates included dividends received in gross income and claimed a credit for the withholding tax deducted from the dividend. In Botswana dividends do not constitute income and the withholding tax is a final charge to tax and no credit can be claimed. Whilst the majority were aware that the farming loss brought forward is ring-fenced and cannot be set-off against some did try, incorrectly, to claim it as a deduction. A current year farming loss can be set-off against current income but a loss brought forward can only be set-off against current year farming income.

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.

The overall performance on this question was not good and many did not achieve a sufficient level of marks. It may be that this area of Botswana tax is somewhat more complicated than it need be but that is how the legislation currently stands and the tax exams are required to cover this. Therefore candidates must come to terms with the system and spend time ensuring that they have an adequate working knowledge of the corporate tax environment.

A tax computation starts with the accounting profit and then adds back those items in the income statement– such as depreciation – which are not tax deductible and deducts those items for which there is a specific deduction – such as capital allowances. The current application of IFRS means that various accounting adjustments – such as fair value adjustments and rental smoothing – have no tax impact and must be adjusted for in the tax computation. Accordingly tax computations are becoming more complex as accounting rules are expanded.

Problems were experienced by the majority of candidates with withholding tax on dividends declared and the ACT set-off and which in turn impacts on the calculation of and the dates of payment of self-assessment tax (SAT). Most candidates did not fare well here. A company's tax liability can be reduced by the payment of withholding tax on dividends declared and then that liability must be paid in a minimum of 5 installments (SAT) commencing 3 months after the beginning of the financial year. Each installment should be at least 20% of the final liability with a final payment at the time of filing the return – i.e. 4 months after the financial year end. Many candidates did not know the filing and payment deadlines.

The value added tax (VAT) requirements for zero-rating of exports were not known by virtually all candidates and nor were the requirements for the filing of tax returns and the consequences of late submission.

Question Three

This question tested candidates' proficiency in the area of capital allowances, balancing charges and allowances and rollover relief on the purchase and sale of assets.

Generally this question was satisfactorily answered and reasonable marks were obtained by most. In a question of this nature candidates must be alive to the opportunity of claiming rollover relief but surprisingly many missed this in the question.

Question Four

This was a VAT question and appears to have been too advanced for the vast majority. The question called for comment on the VAT treatment of various specific transactions carried out by a business. For instance certain inputs are prohibited, such as entertainment, but the business was claiming the input and exempt supplies that are not liable to VAT were being returned as liable to VAT. Many candidates were not aware that there is a 4 month window for claiming inputs.

The second part of the question called for a reconciliation starting with the net amount returned and reconciling to the correct amount that should have been returned. It would appear that most candidates are not very proficient in doing reconciliations.

A difficult question and possibly out of the ordinary but candidates should have fared better than they did. The first part required a narrative response and many candidates did not express themselves in English very well. It should be noted that there is likely to be an element of narrative in each paper and candidates should not rely solely on the paper consisting only of numerical answers.

Question Five

This was a capital gains tax question and was reasonably well tackled by most candidates. With shares there is a flat allowance of 25% on the difference between the selling and cost prices whereas with immoveable property the cost of the property must be indexed upwards in order to arrive at the tax cost, which is a simple arithmetic exercise.

The vast majority of candidates were not aware of the fact that a gain on the sale of a person's principal private residence is exempt from capital gains tax. The sale of Johnson's second house was liable to capital gains tax.

Again far too many included dividend income in chargeable income when it does not come into the definition of income. Also quite a few candidates missed the fact that capital gains tax is calculated according to a different table to that used for ordinary income.

Johnson was allowing his parents to live in his second house rent free and accordingly the answer to the question of the tax position of this arrangement was that there was no tax event because there was no income. Income tax is about tax being imposed on income earned but if there is no income then there is no tax .Very few grasped this.