Examiner's report

F6 Taxation (BWA)
December 2010

General Comments

The general standard of candidates' answers was very good with the majority of candidates exhibiting a greater than average technical ability and scoring good marks. The paper was considered to be a reasonable one and those candidates that were well prepared had little difficulty in achieving a good score. The paper was not too difficult and those that did not pass did so because they were not well prepared.

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. Questions 1 and 2 count for 55 marks and so therefore should be given priority by candidates since it is performance in these two questions which will ultimately determine the difference between success and failure. As it is the vast majority of candidates scored very well on Question1 and reasonably on Question 2

Difficulty was experienced by most with Question 3 which involved cash flow considerations in order to determine which employment package provided the better take-home pay and it was actually the calculation of the cash flow and not the tax which caused problems.

There was some indication of time constraints with a few candidates not completing all the questions. It is imperative that candidates answer ALL questions in order to give themselves a reasonable chance of passing and this involves careful time management. The number of crossings out of whole or part answers is a concern as this takes up valuable time and reduces time on other questions. Candidates should consider identifying what they consider to be a simple 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.

Specific Comments

Question One

This question related to an individual and his income from a number of different sources, some of which were exempt, and was very well answered by most. The format of the question was different from prior papers in that it did not contain a business tax computation which, given the comments in Question 2 below, may have been a blessing. However, several workings were required in order to determine the amount of chargeable income from the various sources.

The calculation of taxable income was well handled by most and again most were alive to the issue that there were two calculations to determine the amount of tax payable – one for ordinary income and one for capital gains. However, too many were guilty of claiming a credit for withholding tax on dividends received – dividends are subject to withholding tax at source and this is a final charge to tax.

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.

The part of the question that dealt with the tax computation was not well answered and a lack of understanding of the fundamentals and mechanics of a tax computation were exhibited by many. A good understanding of the mechanics of a tax computation is critical to this exam. The tax computation has as its starting point the profit or loss per the accounts and then followed with adjustments for those items that are not deductible for tax purposes and those allowances that are. Far too often such items as interest received, discount received and management bonus were adjusted in the tax computation although these are not adjustable items. The majority did not cope well with the bad debt deduction; a bad debt is an allowable deduction to the extent that it has been included in the current year or prior years income and in this case the loan, less the interest charge, had not been included in income thus requiring an add back of P170,000.

The second part of the question which dealt with withholding tax on dividends and ACT brought forward, and which has usually caused problems in the past, was very well answered with the vast majority of candidates scoring full marks.

This question also introduced, for the first time, issues on withholding tax given the growing importance of this topic in Botswana tax. The answers were mixed and many referred to double taxation agreements although the question specifically said to ignore these. Withholding tax is not imposed by double taxation agreements – it is imposed by domestic legislation – but instead varies the rate of the amount to be withheld. Generally speaking all service type payments – e.g. management fees and marketing fees – made to non-residents will be liable to withholding tax. Payments for imported goods and transport are not liable to withholding tax.

Question Three
The majority of candidates struggled with this question which related to the comparison of two different employment packages. The first part of the question dealt with calculating the tax payable in respect of each package and there was not much problem with this. The next part was to determine the net cash flow of each package, of which the tax deduction is just one part, and many were uncertain how to perform this calculation often adding on the tax benefits calculated in the previous part although these do not affect cash flow. Cash flow, as the name implies, relates to cash incomings and cash outgoings.

The structuring of employment packages is very common in practice and candidates should ensure that they well versed on this topic.

Question Four
A VAT question, which was reasonably well answered by most, although there were a few common errors. Some candidates stated that there is no VAT on capital items but this is an income tax concept and does not apply to VAT. VAT is charged on all supplies including supplies of capital items – e.g. the sale of immoveable property and plant and machinery - the one exception to the rule being saloon cars because an input credit was not allowed at the time of purchase.

Terminology is important in VAT and many referred to exports of goods being exempt; they are in fact zero-rated and the distinction is important in determining whether inputs credits can be claimed or not.

Question Five
This question related to capital gains and rollover relief. The calculation of capital gains is fairly straightforward in Botswana and the majority of candidates did not encounter any difficulties with it but problems were experienced with the rollover.

There are two types of rollover relief and both were examined in this question. Firstly there is rollover relief in respect of capital gains arising on the sale of immoveable property. Provided the taxpayer purchases another property for use in his business he can deduct the capital gain from the cost of the new property. Secondly there is rollover relief in respect of the balancing charge that arises on the sale of plant and machinery and, again, provided the taxpayer purchases new plant and machinery the balancing charge can be deducted from the cost of the new plant instead of being included in chargeable income.

Many candidates incorrectly included the balancing charge in chargeable income when in fact it had been rolled over against the cost of the new asset. In practice this can result in substantial tax savings and so candidates are encouraged to become proficient on this topic.