

Examiner's report

F6 Taxation (BWA)

December 2012

The ACCA logo is a black square with the letters 'ACCA' in white, bold, sans-serif font.

General Comments

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 passing and failing.

The overall standard of the answers was disappointing with many candidates scoring low marks by appearing to be unprepared for this exam and exhibiting poor exam technique. The following were common observations:

1. Candidates appeared to be under pressure to complete the exam and some left the two questions that carried the most marks to the end and then found that they could not complete them in time. It is suggested that candidates start their answers with a question that is fairly straightforward so as to get over any exam nerves and then concentrate on the two large questions leaving the most difficult of the remaining questions to the last. In any exam it is imperative that candidates give themselves every chance to pass and that involves ensuring that exam time is properly managed.
2. Many candidates did not answer all the questions. Once again it is imperative that candidates give themselves every chance of passing and this involves making an attempt to answer each question, however difficult. In order to do this, candidates must carefully manage their time as in 1 above.
3. There were numerous crossings out, sometimes of fully completed answers. This simply wastes valuable time and is a consequence of attacking the question without first reading the question carefully and then giving some thought to how to answer it. Candidates should make sure that they fully understand the requirements of the question and then spend some time planning how to prepare the answer. Spending this time at the beginning of each question will be much more beneficial than time spent on a second or third attempt at answering the question.
4. A number of candidates write out the question before attempting the answer. Whilst this might have the effect of focusing the candidates' mind it does waste time and is not encouraged. In other cases some candidates feel the need to explain the figures in their answers which again is a waste of time. In a numerical-type answer your ability is determined by the treatment of the actual numbers generated; little is gained by explaining what the number should be and the time and effort should be reserved for explanatory-type answers.
5. A constant concern is that a significant number of candidates do not understand the mechanics of a tax computation which is invariably fatal in such an exam. In every tax exam there will be two or three occasions where a candidate is required to perform a tax computation and so a full understanding of the mechanics of a tax computation is absolutely essential. The starting point in all tax computations is the accounting profit or loss and then adding back expenses that do not qualify as deductions and income not recognised in the accounts and deducting special allowances and income not considered taxable. In other words the computation should only include adjustments; it should not include amounts that are either taxable or deductible. Many candidates start with the sales figure and then proceed to deduct purchases, expenses etc; this is not a tax computation which starts with the accounting profit or loss and ends up with the taxable income or loss. All candidates are encouraged to work through past exam papers to see what is required of them.

Specific Comments

Question One

The first question was for 25 marks and related to an individual who carried on business for her own account as well as having income from employment. Very often with individuals their personal tax affairs get mixed up with their business tax affairs and so it is necessary to identify such transactions and then adjust for them in the tax computation.

Most candidates handled the first part of the question well but did not do so well on the second part which related to the tax consequences of the sale of the hairdressing business. It is necessary to distinguish that part of the sales proceeds which is subject to income tax and that part subject to capital gains tax. Most candidates were aware of the fact that the sale of goodwill is treated as a capital gain and there is a 25% allowance on the gain.

Question Two

The second question was for 30 marks and related to a corporate tax situation. Generally this was not answered well mainly because very few candidates had properly prepared for the changes in the legislation relating to withholding tax. Withholding tax has always been with us but with effect from 1 July 2011 it was expanded to include payments of rent and commission and to deny an income tax deduction in respect of interest, royalties and management and consultancy fees paid or payable to non-residents unless the relevant withholding tax has been paid in the current tax year. Withholding tax is now a very important part of the Botswana tax environment and candidates are expected to have a reasonable understanding of the requirements relating to the liability to withhold, the timing thereof and the effect that this has on corporate income tax.

The first part of the question related to payments that are liable to withholding tax and should have been answered better than it was. Payments of interest, royalties and management and consultancy fees paid to non-residents are liable to withholding tax at the time of payment and are a final charge to tax. Payments of rents, commissions and interest to residents and payment to resident and non-resident construction contractors are also liable to withholding tax but are not a final charge to tax and credit must be claimed by the person suffering the tax. The relevant rates of withholding tax were provided in the paper and so there should not have been the number of rate errors that were actually observed.

Withholding tax also affected the income tax computation. The full amount of the expense in the accounts in respect of interest, royalties and management and consultancy fees paid to non-residents should be added back in the computation. Note that this only applies to payments made to non-residents; it does not apply to payments to residents. Then the deduction has to be calculated by reference to the withholding tax paid; for example if withholding tax of P127,825 has been paid during the current tax year in respect of interest paid to a non-resident, the deduction that can be claimed is $127,825/0.15 = 852,167$. This should be done for all payments to non-residents even if the withholding tax has been paid in full.

Question Three

This was a VAT question and part (a) was answered quite well by most. Remember that the golden rule in VAT is the earlier of receipt or invoice and so payments that are received in advance of the shipment of goods triggers a liability to VAT. Many candidates were of the opinion that imports are zero-rated but this is incorrect; imports are liable to VAT and payment is made upon importation.

The second part was not answered well. What was looked for here was the adjustments required to correct the incorrect VAT return. Again the starting point should be the incorrect figure and then the necessary adjustments to arrive at the correct VAT payable. Many candidates tried to restate the VAT return figures without showing how they were arrived at. Always show your workings and always show nil amounts.

Question Four

The first part of this question was also answered well but the second part was not. This question gave two different employment packages to be compared, which arises often in practice and should also be of interest to most employees. The first part involved calculating the tax payable in respect of each package and most candidates handled this well. The second part involved a cash-flow calculation to establish the net take-home pay which, at the end of the day, is what any employee is interested in. However, most candidates fell down on this part demonstrating little understanding of a cash-flow calculation. Many candidates brought employment benefits such as free housing into the cash-flow when, of course, there is no cash outflow and many missed out the most important cash outflow which is the tax that was calculated in the first part. A popular type of question and candidates are encouraged to work through past exam questions.

Question Five

The question started with a straight forward capital gain calculation on which most candidates scored full marks. The remainder of the question related to rental income and reasonable marks were obtained by the majority. The final part relating to withholding tax was answered very poorly indicating that candidates must spend additional time studying this aspect.