

Examiner's report

F6 Taxation (BWA)

June 2012

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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 general standard this session was disappointing with the majority of candidates struggling to achieve reasonable marks. This paper contained a question relating to new legislation and it is apparent that most candidates had not prepared for this nor had any idea how to deal with the issue. Furthermore the structure of the paper contained more discussion type questions than normal and many candidates did not fare well in this respect. Candidates found this paper challenging, and this was evidenced by questions not being attempted and pressure to complete all answers.

A concern is that a significant number of candidates were not sufficiently prepared for this exam and exhibited poor examination technique.

1. There were numerous crossings out of completed and partially completed answers and then restarting the answer. This can only result in a loss of valuable time which leads to undue pressure to complete all answers. Time management is an essential aspect of any exam and candidates should spend some time considering how to go about the question instead of rushing the answer only to cross it out later on.
2. Many candidates did not attempt answers to some questions. It is essential that all questions are attempted in order to have a reasonable chance of passing the exam.
3. A surprisingly large number of candidates did not understand the mechanics of a tax computation. This is fatal in an exam paper that is most likely to contain two or three computation questions that carry significant marks. The starting point must be the accounting profit or loss and then adjust for tax allowances and items not deductible for tax. Far too many adjusted for non-adjustable items such as sales, purchases and interest received and some adjusted the wrong way around. Candidates are encouraged to work through practice examples of tax computations so as to ensure that they are fully conversant with their mechanics and give themselves a reasonable chance of passing the exam.

Specific Comments

Question One

This was a standard question relating to an individual carrying on a business and could have been answered better by many. A calculation was required of the capital allowance claim but many did not show their workings and arrived at the wrong figure. Workings must be shown, preferably before attempting to answer the question, as marks are awarded for workings.

As is normal with this type of question, non-business expenditure is mixed up with business expenditure and it is necessary to disallow private expenditure in the tax computation. Most candidates managed this part of the question quite well but not so well on the remaining parts. Many candidates missed the inclusion of opening and closing stock in the computation.

The business sustained a loss which is ring-fenced and can only be deducted against future business income and accordingly Elliot has both a business loss and a farming loss, which is also ring-fenced, to carry forward.

The sale price of the business was made up of two parts being the assets and goodwill. In order to calculate the tax on the sale of the assets it was necessary to have calculated the tax value of the assets at the same time as calculating the capital allowance claim above but most did not do this.

Question Two

This was the standard question relating to corporate tax issues and was generally handled adequately by most. The majority handled the capital gains tax section well but virtually everyone claimed the immovable property allowance on the sale of shares, whereas it is only calculated after the loss brought forward is applied, which in this case, gave rise to a loss and so the allowance cannot be claimed. The main point here was that the balancing charge can be rolled-over against the cost of a new property.

Rollover relief allows the balancing charge arising on the sale of a property to reduce the cost of the new property but there are certain conditions which must be observed. Some candidates mixed this up with the requirements for the sale of a going concern for VAT purposes.

The computational part of the question was generally well answered with most candidates aware of the items that needed to be adjusted in the tax computation, although most missed the recoupment of capital allowances on the disposal of the warehouse.

Most candidates understood the VAT consequences of a sale of the warehouse compared to the sale of shares in a company that owns the warehouse but what the question was looking for was the zero-rating of the sale of the warehouse and the conditions needed to be met.

Question Three

Unfortunately virtually every candidate was not prepared for this question which related to a change in legislation which became effective from 1 July 2011, and accordingly low marks were scored.

The new legislation is that amounts due to non-residents in respect of interest, royalties and management and consultancy fees are liable to withholding tax when payment is made and that a deduction for such expenses can only be claimed if the withholding tax has been paid in that tax year. Accordingly it is necessary to add back in the tax computation amounts paid/payable and then to deduct those amounts that are supported by actual payments of withholding tax. Thus if the withholding tax paid is P750 in respect of interest paid to a non-resident then the deduction of interest is limited to $750/15\% = P5,000$. Some candidates deducted the withholding tax paid but this is not correct; the withholding tax paid during the tax year determines the amount of the deduction.

It should be stressed that the above adjustments are only in respect of interest, royalties and management and consultancy fees paid to non-residents. The same adjustment does not apply to payments to residents.

Candidates need to ensure that they understand this new aspect of tax law in Botswana as it is likely to be examined in most papers in the future.

Question Four

This question was of a discussion nature mainly on the principles of taxation and was not that well answered with many being let down by poor English. It should be noted that such type questions have a place in this exam and there will be some discussion in each paper.

It is important to understand why tax is imposed on individuals and businesses and what types of tax are imposed. Many candidates were not aware of the distinction between direct and indirect tax or the difference between tax avoidance and tax evasion.



Question Five

This question related to taxation on investment income and income from rents. Because the company earned income from dividends which is tax free the question was looking for the apportionment of deductible expenses and virtually all candidates were not aware of this requirement.

If a person incurs expenditure partly in the production of exempt income then a proportion of that expenditure is disallowed as a deduction. The clearing of ground on a vacant property is also disallowed expenditure as the property is not earning any income.

Most candidates claimed credit for tax withheld from rent and interest but far too many still continue to incorrectly claim credit for tax withheld from dividends received; dividend income is exempt from tax and accordingly credit cannot be claimed for tax withheld.

Very few candidates were aware of the objection and appeal procedures when an assessment is disputed. Again it is important that candidates are aware of taxpayer's rights in the event that a dispute does arise.