Examiner’s report
F6 Taxation (BWA)
June 2014

General Comments
The examination consisted of five compulsory questions. One question was for 25 marks, one for 30 marks and then three for 15 marks each.

The vast majority of candidates attempted all five questions, and there was little evidence of time pressure. Where questions were left unanswered by candidates, this appeared to be due to a lack of knowledge or poor exam technique, as opposed to time pressure.

As in previous sessions, a small minority of candidates answered questions 1 and 2 last and then put themselves under time pressure to complete these questions. These two questions carry 55 marks out of 100 and therefore candidates are strongly recommended to ensure that they give appropriate priority to these questions if they want to give themselves a reasonable chance of passing.

Candidates performed well on questions 1 (a), 1 (b), 3, 5 (a), and 5 (b). The questions which candidates found most challenging were questions 1 (c), 1 (d), 2 (a), 2 (b), 4 and 5 (c). Overall candidates appeared to be well prepared and demonstrated a reasonable understanding of the mechanics of a tax computation which is so important to this paper.

A number of common issues arose in candidates’ answers:

- Failing to read the question requirement clearly and therefore providing irrelevant answers which scored few if any marks.
- Poor time management between questions, some candidates wrote far too much for some questions and this put them under time pressure to finish the remaining questions.
- Not learning lessons from earlier examiner’s reports and hence making the same mistakes.
- Too many crossings out putting the candidate under time pressure.

Specific Comments

Question One
This 25-mark question was based on Gibson Siele who is in the printing business on his own account, and tested candidates’ knowledge of the taxation of individuals who carry on an unincorporated business. Such persons often have other income such as rental income, interest income etc and it is not uncommon that their business affairs become mixed up with their personal affairs. It is therefore necessary to split out business income from personal income.

Part (a) for 10 marks required a calculation of Gibson’s chargeable income, i.e. his assessable income less his allowable expenses, from his two businesses, Setswana Prints and Screen Master. Most candidates performed adequately on this part which, as it so often does, involved a tax computation.

There were two workings which were required before answering the question. Firstly candidates had to calculate the capital allowance claim and the best way to do this is to start with the opening cost and then to follow through with the additions and disposals to arrive at the closing cost. This is necessary because the capital allowance claim is based on the closing cost price of the assets. A similar calculation normally needs to be performed for accumulated allowances to arrive at the tax value but no marks were allocated to the tax value as all that was required was the capital allowance claim for the year.

The second working, which most candidates missed, was to calculate the balancing charge on assets disposed of in the year. Remember, if there is a disposal of assets there will invariably be a balancing charge or allowance.

Once these figures had been obtained then candidates could commence on the tax computation. In this case, Gibson's personal affairs had become very mixed up with his business affairs – receipts included medical aid refunds, sale proceeds of shares and a refund of a loan to KTS Pumps. On the payments side, donations to a political party, non-business bad debts and purchases of shares need to be added back in the tax computation. By making adjustments in the tax computation we can arrive back to Gibson's business income. One adjustment that many candidates missed was the "salary" taken by Gibson; owners or partners of businesses do not have a salary – instead the profits of the business accrue to them.

Part (b) for 6 marks related to capital gains. There were two disposals which were potentially liable to capital gains tax – the shares in KTS Pumps and the business known as Screen Master. Most candidates taxed the sale of goodwill correctly but incorrectly claimed the moveable property allowance on the loss arising on the sale of shares – the allowance can only be claimed on a profit. The vast majority of candidates did not take account of the capital loss brought forward.

Part (c) for 4 marks was to summarise all the various sources of Gibson's taxable income. As noted above, Gibson had income from his businesses and he also had capital gains. In addition, he earned income from interest, dividends and commission. Interest that has been subjected to withholding tax no longer constitutes taxable income and many missed the fact that Gibson has a vehicle benefit.

Part (d) for 5 marks tested candidates' knowledge of VAT on the sale of the Screen Master business. So long as the sale meets certain preconditions it can be zero-rated and most candidates were aware of the conditions. However, many candidates did not charge VAT correctly on the sale had it not been zero-rated as required in part (ii); VAT is only raised on a standard supply of goods or services, which in this case were the stock and fixed assets. VAT is not charged on the sale of debtors and goodwill which are considered financial services and so exempt supplies.

Question Two

This 30-mark question was based on Savuti Foundries and covered the topics of corporate taxation as well as a taxpayer's rights in the event of a dispute. It is essential that candidates have a good working knowledge of the mechanics of a company tax computation.

The first part of (a) for 4 marks required candidates to calculate the balancing charge arising on the sale of equipment and most candidates performed well here. Whenever a balancing charge arises and new equipment has been purchased to replace the old equipment then rollover relief can be claimed by setting-off the balancing charge against the cost of the new equipment and most candidates were aware of this.

The second part of (a) was for 13 marks and was a standard corporate tax computation and the majority of candidates performed well here. A common error was to add back the interest paid to residents and the commission paid to salesman in the tax computation when this was not necessary since the requirement to obtain a deduction is that withholding tax must be paid during the tax year in respect only of payments to non-residents (not to payment to residents). However, the majority of candidates exhibited a reasonable understanding of the mechanics of a tax computation which is so fundamental to this paper.

The final part of (a) was not well answered by the majority of candidates. This part required candidates to quantify the minimum amount of SAT (self assessment tax) that the company must pay and on which dates. The question stated that the company had already paid P150,000 at the end of the first quarter. All companies with a taxable income in excess of P200,000 must pay SAT and must do so at the end of each quarter with a tolerance of 20% of the final tax charge. A final payment, which most candidates missed, is made 4 months after the year end.

Part (b) for 9 marks was not tackled well with many candidates not even attempting a response. This requirement related to a taxpayer's remedies in the event of a dispute and the time limits on assessments and is a very important topic considering that tax is the second most litigated subject in the world. Candidates must be aware that in the event of a dispute (and in practice in Botswana there are many) the taxpayer has the right to object and appeal. Equally candidates should be aware of how far back the tax authorities can go on past assessments to make changes. Administration is an important element of the F6 (BWA) syllabus and candidates must bear this in mind.

Question Three

This 15-mark question involved comparison of two different employment packages. Valentine Pheko had to decide whether to accept a package from Moraka Wholesalers or Kalahari Distributors and most candidates scored well on this question. The first step was to calculate the tax charge on each package and then once that had been quantified to calculate the net cash flow including the tax liability of each option. A number of candidates did, however, fail to include the tax in the cash flow; obviously the amount of tax that a person will pay is an important factor in deciding which package to accept.

The net cash flow was higher with the Moraka Wholesalers package and an important aspect was that the Kalahari Distributors offer did not include a company pension scheme, which is becoming a very important aspect of any employment package in Botswana.

Question Four

This 15-mark question tested candidates' knowledge on allowable deductions. Not all expenses are allowable as a deduction and these disallowable expenses must be added back in the tax computation. Generally any expense that is wholly, exclusively and necessarily incurred in the production of assessable income can be claimed as a deduction. This is known as the general deduction formula but there are also specific deduction rules which permit a deduction in those cases where the expense fails the general deduction formula.

Candidates did not fare all that well on this question because they did not give reasons why the expenses was deductible or not deductible. It is not good enough to take a guess and simply write "It is not deductible"; this is far too vague an answer and would only score minimal marks assuming the answer is correct. Candidates were asked in the question to give reasons and thus they were required to do so to be awarded full credit – for example VAT is specifically a deductible expense where an input credit has not been claimed; or an expense is not deductible because it is of a capital nature. Also many candidates struggled to express themselves well in English.

Candidates must be aware of the difference between capital and revenue expenditure because any expenses of a capital nature will be disallowed.

Question Five

This 15-mark question was based on Sentlhana Holdings and tested candidates' knowledge of capital gains tax and VAT. The company sold both immoveable property and shares. The sale of the immoveable property requires the application of indices in order to establish the tax cost and the majority of candidates handled this correctly in part (a) for 4 marks. The sale of the shares was a simple calculation but many candidates claimed the 25% moveable property allowance on a capital loss; it can only be claimed on a capital gain. The overall result, after setting off the loss on the sale of shares against the gain on the sale of immoveable property, was a small gain

Part (b) also for 4 marks required a tax computation (the third in this paper) which included the net capital gains above. Most candidates scored reasonable marks here. The only issue which many candidates missed was that management fees were paid to a non-resident and no withholding tax was deducted and paid over and so the expense should have been added back in the tax computation with no corresponding deduction.

Part (c) was for 7 marks and required a reconstruction of the VAT position for the period covered in the results of Sentlhana Holdings for the year. It should be noted that the sale of immoveable property is liable to VAT (unless it is residential property) whereas the sale of shares is considered to be a financial transaction and is thus exempt from VAT. VAT only arises if there is a supply of goods and services and so such accounting concepts as depreciation, loss on sale of shares and fair value adjustments do not trigger a VAT liability and this is what was being tested.