



Examiner's report

F6 Taxation (CYP) June 2009

General Comments

The examination paper consisted of five compulsory questions (question 1 for 30 marks and question 2 for 25 marks, question 3 for 20 marks, question 4 for 15 marks and questions 5 for 10 marks)

Excellent answers were handed by many candidates for questions 1, 2 and 3.

A limited number of candidates continue to display their answers poorly, with a lack of clear labelling to indicate which questions are being attempted.

Certain candidates did not tick the appropriate box in the cover page for each question attempted.

Specific Comments

Question One

This was a 30 mark question tested candidates' ability to cope with various aspects of income tax and special defence for two individuals, including the computation of the taxable income.

Part (a) was well attempted. Although it was clearly stated in the question that the sale of the flat in Athens was subject to income tax, only few candidates treated it correctly, most candidates treated the sale of flat subject to capital gains tax instead of trading income. Certain candidates could not identify and deduct correctly the expenditure related to rental income. The 1st time employment exemption was also handled incorrectly.

Part (b) was well attempted as well. Candidates displayed a good understanding on calculating capital gains tax, but some candidates calculated capital gains tax on the sale of the antique and on the sale of flat in Athens. Also candidates deducted the exemption for primary dwelling house from capital gains although the sale concerned their holiday house and not the main residence and also did not allocate the capital gains tax payable to the two individual taxpayers

Part (c) was very well attempted and many candidates scored full marks.

Question Two

This was a 25 mark question.

Part (a) for 21 marks tested candidates' ability to calculate the chargeable income of a company. This part was answered satisfactory, with some candidates preparing excellent answers. Candidates could not calculate the amount of bonus shares that should have been added back and also treated the bonus and/or loan given to the director as an adjustment to the taxable income. Only a few candidates calculated the correct interest restriction on the cost of investment and apply the 50% income tax exemption on the notional interest imposed on the director's account.

Part (b) for 4 marks, tested the PAYE implication of certain transactions included in part (a).

This part was not attempted satisfactory since many candidates spent time and gained no marks by writing about the PAYE procedures in general. Only a few candidates noted the use of a saloon car as a taxable benefit in kind.

Question Three

This was a 20 mark question.

Part (a) for 8 marks tested candidates' ability to calculate the capital gains tax payable in various disposals. Many candidates calculated the capital gains tax payable for all transactions in a single calculation and managed to arrive at the correct tax amount. These candidates were granted half of the total marks. Disposal of immovable property in the context of the Capital Gains Tax Law exist on every one individual disposal and the tax obligations arise on every single disposal. Many candidates fail to display how losses and lifetime exemption are carried

forward or brought forward. Several candidates assumed that losses can be brought forward only for some years otherwise wasted, while others used the lifetime exception only if the profit was enough to absorb it.

Part (b) for 2 marks was examining the obligations of an individual as a result of the transactions at part (a). This part was well answered.

Part (c) for 10 marks tested candidates' ability to list the criteria used to determine whether an isolated transaction is of trading or capital nature. This part was well answered as well, but many candidates ignored that the requirement was to list the criteria and wasted time describing the criteria in detail without gaining any extra marks.

Question Four

This was a 15 mark question.

Part (a) for 7 marks tested candidates' ability to describe the circumstances in which a trader may make a voluntary correction of an error. Many candidates prepared good answers, but some discussed and explained about the VAT registration procedure or what the errors and misdeclarations might be.

Part (b) for 8 marks tested candidates' ability to calculate the amount of VAT payable during a specific VAT period. Candidates could not demonstrate basic VAT knowledge on the issues under examination. Although it was a simple question, candidates seemed not to have good knowledge on computing VAT payable. Only a few candidates discounted all credit sales before calculating VAT.

Question Five

This was a 10 mark question.

Part (a) for 6 marks tested candidates' knowledge on how government tax policy and the use of different types of taxes can be used to achieve a redistribution of wealth.

Candidates did not do well in this theoretical question, although many recognised that income tax, as a progressive tax, went beyond and discussed how government provides social welfare, which was totally irrelevant with the requirement.

Part (b) for 4 marks tested candidates' ability to calculate the amount of tax payable, including penalties and interest. Only few candidates acknowledged that there is no tax payable on the assessment since the temporary tax due is equal to the tax due. Most of the candidates calculated interest and penalties assuming there is tax due on the assessment. The penalties and interest should have been applied for the failure to pay the third installment of the provisional tax and the failure to submit on time the tax return.