

Examiners' report

F6 Taxation (CZE)

June 2008

The examination consisted of five compulsory questions (one question for 30 marks, one question for 25 marks and three further questions for 15 marks each) with an approximate 4:1 split requirement for computation and narrative respectively.

Most candidates attempted all five questions, although part (b) of question 2 and parts (b) and (c) of question 4 were omitted by relatively high number of candidates. A majority of candidates answered questions in the same order as in the paper (1, 2, 3, 4, 5).

Excellent answers were presented by very few candidates, who achieved the highest marks particularly for questions 1, 2 and 5. The performance of candidates overall was not as good as expected and disappointingly a large number appeared to be unprepared for the examination.

Workings were generally shown in all questions, although handwriting was sometimes very difficult to read. Some candidates continue to display their answers poorly, with a lack of clear labelling to indicate which questions are being attempted. Candidates should give more thought to the layout and organisation of their answers; in particular they should pay attention to starting each question on a new page.

Question 1

This 30-mark question tested candidates' ability to apply corporate income tax rules in a practical example. Candidates were required to calculate the corporate tax liability and prepayments for the following fiscal year of a company using a period different than a calendar year as a fiscal year. Most candidates demonstrated a satisfactory knowledge of how the tax base is derived from the accounting profit. Many correctly claimed the deduction for loss carry forward and calculated maximum tax deductible provisions to be created, as well as the deduction for the foreign tax credit. Calculation of corporate income tax prepayments for the following fiscal year did not create major problems either, but many candidates failed to indicate the dates when the prepayments are due. Only a few candidates calculated correctly the tax deductible amounts for the assigned financial lease. Very few candidates were able to deal with the contractual penalty assigned correctly.

Not all the candidates attempted part (b) of question 1. Most of those who did calculated the amount due correctly, but many of them failed to state the due dates.

Common errors:

- Missing calculation of obligatory social security and health insurance contribution for the employees
- Incorrect calculation of the tax deductible amount for financial lease payments
- Incorrect treatment of the contractual penalty assigned
- Missing or incorrect due dates for tax prepayments
- Missing due dates for the payment in part (b)

Question 2

This question for 25 marks focused on the calculation of the individual income tax base, tax liability, and health care insurance and social security contributions of a single individual resident taxpayer with various types of income, including calculation of possible tax savings if the taxpayer's son acted as a cooperating person. Question 2 was frequently the best answered question in the paper, particularly part (a), with a number of candidates performing very well when calculating tax base and tax liability. Many correctly calculated partial tax bases for employment, business and rental income including application of the correct rate of lump-sum expenses. For business income both 40% and 50% lump-sum expenses were regarded as a correct answer if properly justified (40% would apply if Ms Havlova rendered services as an independent barrister). As regards pension and life insurance payments, some candidates confused maximum amounts exempt for Ms Havlova with maximum

deductible amounts for the employer. Application of personal and child tax credits, rounding and calculation of tax liability did not cause major difficulties.

The large number of candidates who did not attempt calculating health care insurance and social security contributions (part (b)) was surprising. Some of those who attempted this part failed to correctly calculate the base, applying the wrong percentage of the difference between income and expenses.

Part (c) was attempted by a larger number of candidates than part (b); however the number of those who omitted part (c) remained disappointing. Marks would have been higher if candidates had not forgotten to apply at least one of the rules for the maximum amount that may have been allocated to Petr Havel.

Other errors in question 2:

- Not including non exempt pension and life insurance contributions in the base for social security and health insurance contributions
- Missing the deduction for the interest paid

Question 3

This 15 mark question on the subject of VAT tested candidates' ability to apply rules for compulsory registration for VAT and calculation of VAT liability in a practical example. Two alternative answers for parts (a) and (b) were possible and gained candidates the same marks, depending on whether candidates assessed the rental activity of the company as occasional and auxiliary, or a regular part of the main business. The majority of candidates chose the first option, although giving the correct answer for the latter may have been less time consuming and would gain candidates valuable time.

In part (a) some candidates demonstrated a good knowledge of rules as regards thresholds and time limits for registration, but they failed to apply such knowledge in a practical example.

In part (b) most candidates correctly stated and justified which was the first taxable period and calculated the tax base and VAT liability with some minor mistakes. Calculation of the estimated coefficient for the reduction of the deduction appeared to be the most difficult part of part (b) for those who applied the first above mentioned alternative.

Other common mistakes in question 3:

- Incorrect application of the reverse charge on legal services from Luxembourg
- Incorrect or missing due date for filing VAT return

Question 4

This question for 15 marks was on the subject of the tax liability of an individual resident taxpayer with income sourced both in and outside the Czech Republic. In part (a) candidates were required to calculate individual income tax liability and state whether any advances would be due during the next fiscal year. Performance of candidates in this part was generally good, although most of them omitted the task concerning tax prepayments. Most candidates correctly included worldwide income in the tax base. A few candidates considered the income from the sale of wine as occasional and correctly classified it as "other income" instead of "business income", and they received full marks if the corresponding treatment of expenses was correct (no lump-sum expenses are possible for other income). Many candidates made mistakes when applying the exemption method for elimination of double taxation.

Parts (b) and (c) focused on procedures applicable to prolongation of statutory deadlines and some basic rules concerning the statutes of limitation. Both parts were omitted by the vast majority of candidates. Those very few who attempted these parts gained most marks on part (c) (i) (statutes of limitation in case of tax base and tax liability), but generally did not state how the procedure is different in the case where a taxpayer incurred a loss. It

was not clear from the answers whether this resulted from candidates' poor time management or whether they avoided questions on the subject of tax management and procedures.

Question 5

This question for 15 marks tested candidates' knowledge of tax deductibility of benefits provided to employees on the side of the employer. Candidates performed very well on this question, and together with question 2 and question 5 was the best answered question. Some candidates stated that the MBA course was tax non-deductible with justification that MBA represents the enhancement of the qualification. They received full marks although tax administration currently does not consider MBA to be enhancing the existing qualification. Many candidates correctly stated that only part of the costs of meal vouchers can be deducted, but only some of them showed the calculation of the maximum deductible amount and failed to gain full marks for this part.