



Examiner's report

F6 Taxation (CZE)

June 2009

General Comments

The examination comprised five compulsory questions (Question 1 for 30 marks, Question 2 for 25 marks and three further questions for 15 marks each) with an approximate 4:1 split requirement for computation and narrative respectively.

Nearly all candidates attempted all five questions. Where not all questions were attempted, Question 4 was most frequently omitted. A majority of candidates answered questions in the same order as in the paper (1, 2, 3, 4, 5).

Excellent answers were presented by many for all five questions and very high marks were achieved by a number of candidates. The performance of candidates overall was very good. Only a few appeared to be unprepared for the examination.

Workings were generally shown but were at times difficult to follow. Too many candidates continue to display their answers poorly, with a lack of clear labelling to indicate which questions are being attempted despite the new layout of the scripts that encourages candidates to start each question on a new page. Candidates should give more thought to the organisation of their answers and handwriting which was at times difficult to read.

Question One

This 30-mark question tested candidates' ability to apply corporate income tax rules on a practical example. Candidates needed to cope with various elements affecting the determination of a tax base such as sale of financial assets subject to participation exemption, interest on loan from related parties (thin capitalisation), tax non deductible expenses as well as taxation of profit distribution. Some candidates demonstrated a lack of appreciation of information given in the question, e. g. that the alienated shares were re-valued through profit and loss account, and lost valuable time by analysing what was the accounting status of them.

A number of candidates proved a solid knowledge of tax depreciation rules and rules applicable when a fixed asset is being sold. Candidates were receiving full marks regardless of whether they were adding back the overall accounting depreciation charge and/or book value and deducting the tax depreciation charge and/or tax residual value, or reflecting only the difference between the accounting and tax figures in the tax base.

As regards dealing with the interest on loans from related parties (thin capitalisation) many candidates seemed to expect the task to be more complicated than in fact it was. Many candidates failed to read this part of the question carefully and dealt with situations not covered in the question. Marking of this part was however done with a certain degree of generosity since the relevant legislation notably the maximum allowable debt to equity ratio changed after the cut off date and it has been applicable retroactively. Both ratios 2:1 and 4:1 were considered correct. Candidates were free to choose the actual method for the calculation of maximum deductible interest. Application of the formula suggested by the Ministry of Finance in their regulation was considered correct as well as any other calculation. Candidates were receiving full marks if they respected general principles given by the legislation.

Common errors in Question 1 included:

- Failing to add back directors' fees and omitting the calculation of respective social security and health care insurance contributions.
- Wrong treatment of the costs of the cafeteria. Very few candidates were able to distinguish correctly between operating costs (deductible) and costs of grocery (non deductible).
- Application of a participation exemption on dividends paid out to individual shareholders.

Question Two

This question for 25 marks tested candidates' knowledge of individual income tax rules. The structured example required candidates to calculate a tax base and tax liability of an individual taxpayer receiving various kinds of income (employment income, business income, capital gains, rental income) with source in the Czech Republic

and abroad. Many candidates showed a good knowledge of guiding principles; in particular taxation of employment income and business income caused very few problems.

Candidates were receiving very high marks on this question and it was frequently the best answered question of the paper. However, mistakes in calculations of partial tax base on capital income and foreign tax credit were common.

Other errors in Question 2 included:

- Social security and health care insurance contribution used as a deductible expense.
- Using lump sum expenses for rental income although documented expenses were higher.
- Wrong application of rules on exempt income from sale of shares.

Question Three

This question of 15 marks was on value added tax (VAT). It tested candidates' ability to apply rules on claiming back VAT paid in the Czech Republic by foreign purchaser. Part (a) consisting of a practical example was generally better answered than part (b) which focused on the actual procedure of claiming back VAT. Many candidates proved a good knowledge of basic principles, although performance on part (b) was not as good as on part (a). Stating on which items it is possible to claim VAT did not cause major problems, although some candidates omitted the minimum threshold. As regards part (b) and procedures most candidates only mentioned basic elements and omitted too many important details such as the time limits for claiming VAT which resulted in poor marks. Much higher marks could have been gained if more candidates followed Student Accountant Magazine when preparing for the exam. There was an article outlining the main elements of this particular issue published during winter 2009 there.

Question Four

The question of 15 marks was on subject of appeal against the assessment of the penalty for the late payment and possibility of taxpayer to challenge the acts issued by tax administration in general. In part (a) candidates were required to state what has to be included in the appeal against the assessment of the penalty for the late payment. Performance of candidates in this part was satisfactory although too many forgot to mention that the appeal has to contain the suggested amendments in this case the cancellation of the assessment of the penalty.

In part (b) candidates were required to state whether an appeal is possible against different types of decisions/assessments issued by tax administration. Many candidates who attempted answering this part gained some marks, although very few of them received full marks.

Part (c) focused on calculation of interest due in case of late payment of tax. This part was omitted by many candidates, but it was not clear from the answers whether this resulted from candidates' poor time management or whether they avoided this part because of the subject. Some of candidates who answered this part failed to apply correct procedure, ie interest derived from repo rate.

Question Five

This question of 15 marks was on subject of social security and health insurance contributions paid by employers and individual income tax of an individual taxpayer with income from different employers. Candidates demonstrated a good knowledge when calculating the tax liability of a resident taxpayer. Some mistakes occurred when calculating social security and health care insurance. Inclusion of pension and life insurance above limit in the base for social security contributions was not obvious to many. Another common error was not including directors' fees in the base for health care insurance contributions. Some candidates omitted the part on social security and health insurance at all. Part (b) required calculation of individual income tax and performance on this part was very good.