



# Examiner's report

F6 Taxation (CZE)

June 2011

## General Comments

The examination consisted of five compulsory questions (question 1 for 30 marks, question 2 for 25 marks and three further questions for 15 marks each) with an approximate 5:1 split requirement for computation and narrative respectively.

The vast majority of candidates attempted all five questions though a number of them did not answer all parts in questions 1, 3 and 5. Candidates need to practise good time management, so that they have time in the exam to attempt all parts of each question.

High marks were achieved by a number of candidates on questions 2 and 5. Very good answers were presented by a large number of candidates on questions 1 and 4.

The performance on narrative parts was not as good as on those based on computations. Although there are few, candidates need to be prepared to answer narrative questions and to give examples where requested to do so.

A large number of candidates produced answers that were well labelled, displayed and organised. The handwriting on some scripts was very difficult to read. Workings were generally shown but were at times incomplete and difficult to follow. Good workings had a layout that was clear and well arranged. During the examination, some candidates need to give more thought to the organisation of their answers and to use clear workings to show what they are attempting to do.

## Specific Comments

### Question One

The 30 mark question on corporate income tax aspects related to a large resident company using a fiscal year different from the calendar year, and was correctly answered by many candidates, particularly part (a). Part (a) examined the knowledge of general corporate income tax rules such as the calculation of a tax base, tax liability and tax due and requested details and justifications for the computations. Candidates also needed to demonstrate their ability to apply rules on taxation of dividends by deciding whether the dividend is exempt or taxable and stating why. Amongst other topics the computation of the tax base included tax deductible and non deductible representation costs, financial costs and provisions for outstanding debtors. Part (b) tested candidates' knowledge of how corporate tax advances and the penalty for having failed to pay them are calculated.

Most candidates demonstrated a sound knowledge of how the tax base is derived from an accounting profit. A few mistakes occurred when calculating tax deductible amounts of representation costs and financial costs. A large number of candidates correctly identified the premiums for directors' liability as tax non deductible. Some added employer's health care insurance on this amount although this was supposed to be included in the overall social security and health care insurance contributions figure. Most candidates demonstrated a solid knowledge of the thin capitalisation rule, and only a few forgot that the interest on the debt from Sirius Emirates is tax non deductible as a whole as it is derived from the profit. A number of candidates made mistakes when calculating tax deductible provisions in the case of the receivable from Agave, and some forgot to include the amount of deductible provisions in the accounting profit.

On the taxation of dividends received, some candidates were not able to distinguish between exempt and taxable dividends, did not deduct dividends from the accounting profit, or forgot to include taxable dividends in a separate tax base. Justification of the selected treatment was often missing.

In part (a) (ii) candidates were required to state by when the tax return and tax were due. Most candidates stated 31 March 2011 in their answers, although the due date is 1 April 2011 according to the new legislation in force as of 1 January 2011. Both answers were accepted.

The performance on part (b) was generally good although a number of candidates made mistakes when calculating the number of days when the respective advances were overdue.

### Question Two

The question for 25 marks tested candidates' knowledge of rules on calculation of the income tax base, tax liability and tax due/overpaid of two individual tax resident partners of a general partnership in a practical example. In addition to the profit from a general partnership the two partners earned different types of income such as employment income, business income and other income. The personal status of the partners was different. Part (a) focused on candidates' ability to calculate each partner's tax base and tax liability, in particular to derive their business income from the accounting profit of the partnership. Computation of the tax bases included tax depreciation of fixed assets, the possibility of claiming back the child credit, research and development relief, tax treatment of profit and loss from the sale of securities, interaction between different partial tax bases and other topics. In part (b) candidates were required to calculate social security and health care insurance contributions of one partner and state procedural details for the settlement payment.

The overall performance on this question was very good. A number of candidates presented excellent answers. Some, though, did not derive the partial tax base of a partner from the general partnership's accounting income and expenses. Most candidates proved a solid knowledge of tax depreciation rules except those applicable to the technical appreciation (upgrade) of software in the second half of its useful life. A number of candidates either forgot to claim tax credit for research and development costs or incorrectly claimed it at the level of the partnership. Some candidates offset the loss on sale of securities against business income, which cannot be done.

Although a vast majority of candidates applied personal and child tax credits correctly, having arrived to a negative tax base (loss), a few wrongly applied the credits in a loss situation.

In part (b) many candidates demonstrated a good knowledge of how the base for social security and health care insurance and contributions themselves are calculated. Many did not know by when the payment is due. Both 8 and 9 May were accepted as the due date for health care insurance contributions, although 8 May is a public holiday in the Czech Republic.

Other common errors:

- Costs of influenza vaccination considered tax non-deductible
- Claiming lump-sum expenses relating to Ms Horakova's business income though question explicitly required travel lump-sum expenses claim
- Incorrect rounding when calculating tax depreciation charges
- Omission of calculation of tax advances by Ms Horakova from her employment income

### Question Three

This question of 15 marks concerned the VAT to be calculated by an individual VAT payer supplying goods and services, both taxable and exempt. In part (b) candidates were required to explain the term 'a person identified to VAT' and to give an example of such person.

Candidates found this question difficult. Many candidates seemed to find it hard to distinguish between taxable and exempt output supplies and to allocate the respective input supplies to outputs. A few candidates are to be congratulated for attempting to calculate the coefficient, and for applying it correctly. Most candidates correctly dealt with the credit note in the output supplies.

In the narrative part (b), many candidates were unable to describe conditions and/or situations when a person not liable to VAT becomes a person identified to VAT, or to give straightforward examples.

#### **Question Four**

The 15 mark question focused on rules applicable to income subject to a withholding tax, and the definition of related parties. In part (a) candidates were required to state whether the income is subject to withholding tax or exempt and give reasons why. In the case of taxable income, candidates were to complete procedural details of payment of the withholding tax. In part (b) candidates were to decide whether in a given scenario, pairs of persons are related or unrelated.

The performance on both parts was good. Many candidates correctly identified the exempt item in the group of dividends. For most items candidates correctly stated the amount of the withholding tax, the withholding and payment dates, and the competent authority. Some candidates made mistakes when calculating the amounts although they were given the applicable rates in the question. Many forgot to mention the competent authority although it was specifically requested.

#### **Question Five**

The last question of 15 marks was on the subject of individual income tax. There were four situations outlined in the question and candidates were required to decide whether the four individuals were obliged to submit the individual income tax return and by when.

Overall the performance on the question was very good. Nevertheless a number of candidates omitted some parts, which suggests that candidates need to practise good time management.

Common errors:

- Lack of knowledge of the rule on exempt retirement income
- Omission of the fact that the bookkeeping of the taxpayer in part (d) is subject to review by an accredited accountant

As regards the due dates, as expected most candidates followed the legislation in force before 1 January 2011, whilst a few applied the rules in force after this date. Both answers were accepted.