Examiners' report
F6 Taxation (CZE)
December 2007

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 3:1 split requirement for computation and narrative respectively.

Most candidates attempted all five questions. A majority of candidates answered questions in the same order as in the paper (1, 2, 3, 4, 5). Where not all questions were attempted, Question 2 was most frequently omitted. Some candidates did not read the requirements properly and lost time by carrying out tasks that were not required. This contributed to poor performance, particularly on narrative parts.

Excellent answers were presented by a few candidates, particularly for questions 1, 3 and 5 and high marks were achieved by those candidates. The performance of candidates overall was good; however the number of candidates who appeared to be unprepared for the examination remained relatively high.

Workings were generally shown but were at times very difficult to follow. Some candidates did not indicate clearly which question they were answering. Not all candidates started answering each question on a new page and handwriting was sometimes very difficult to read. Candidates should give more thought to the layout and organisation of their answers.

Question 1
The 30-mark question tested candidates' ability to apply corporate income tax rules in a practical example. Candidates were required to calculate a tax base and a tax liability as well as to give some details and justifications for the computations. Most candidates demonstrated a good knowledge of how the tax base is derived from an accounting profit, how tax depreciation allowances are calculated and which tax non-deductible expenses need to be added back. Calculation of the tax liability did not create major problems either, although some candidates failed to claim the deduction for disabled employees. Some candidates forgot to include not exempt dividend in a separate tax base.

A few candidates demonstrated a lack of awareness of the information given in the question and tried to set up their own assumptions. Those candidates received marks only if such assumptions were not contrary to the information given in the question and the tax consequence stated was correct; for example as regards travel allowances above the statutory limit, those candidates who expressed the assumption that the claim for such excessive allowances followed from an internal statute or regulation and treated the excessive allowance as tax deductible received marks.

Common errors in Parts (a):
* Wrong treatment of dividends in the accounting profit
* Missing calculation of obligatory social security and health insurance contribution for employees
* No distinction between gifts and sponsorship
* Wrong input price of the car
* Wrong application of tax credit for disabled employees (deduction against the tax base instead of against the tax liability)
* Wrong calculation of 2007 advances to be deducted against the tax liability (5 instead of 4).

In Part (b) some candidates failed to read requirements and limited their answers to discussions on maximum deductible amounts. A number of candidates confused maximum deductible amount for an employer with the maximum exempt amount for an employee for the individual income tax purpose.

In Part (c), many candidates correctly stated the gift ought to be for a qualified purpose, but failed to give a single example of such purpose. Very few mentioned that only gifts made to legal persons with a registered seat in the

Czech Republic were allowed for the deduction. Maximum deductible amounts were correctly stated by most candidates although some appeared to confuse them with the limits applicable in case of individual donors.

Many candidates made a good attempt at this question.

Question 2
This question for 25 marks tested candidates ability to calculate the income tax base of an individual tax resident and tax non-resident taxpayer and demonstrate they were able to apply the respective rules on a practical example.
A number of candidates continued to calculate the tax liability although they were required to calculate the tax base only. Candidates would have saved a lot of valuable time and may have gained higher marks on other questions if they read the question properly.

In Part (a) (i) a number of candidates failed to include dividends in a separate tax base. Not applying the withholding tax on income for writing the article was another common mistake.

Performance on Part (a) (ii) was generally very poor. Not very many candidates were able to state which of the income had the source on the territory of the Czech Republic; too many failed to apply a basic rule according to which only income with the source in the Czech Republic was taxable under this scenario. As regards taxation of business income, any reference to a permanent establishment was also rarely made.

This may have resulted in poor answers to Part (b) that tested the knowledge of rules on registration of a non-resident taxpayer and a permanent establishment. There were many irrelevant answers; for example, that the taxpayer was obliged to submit a tax return, which was not correct for the tax year 2007 based on the information given.

Only a few candidates were able to calculate correctly the penalty (interest) in Part (d). In Part (d) candidates received full marks regardless whether they applied the Central bank basic or repo interest rate. Performance on Parts (b) and (d) demonstrated a general lack of understanding of some basic principles in the area of taxes management and procedures.

A number of answers to Part (c) were in the form of general comments on tax residency rather than application of the rules on the concrete situation described in the question. A majority of candidates correctly applied the rule of 183 days, but only some deducted the days spent in the spa. Those who deducted the spa days then went on to correctly state the taxpayer's non-resident status. However, some candidates omitted to mention that this was also because the taxpayer had no permanent home in the Czech Republic.

Question 3
This question of 15 marks was on VAT and it was generally well answered. The thresholds and time limits for registration did not cause major problems, although very few candidates clearly the principle that any company performing economic activity was liable to VAT and companies were exempt if they were below the threshold. Giving an example of a company not liable to VAT seemed to be most difficult task of Part (a).

Part (b) was satisfactorily answered. Some candidates did not calculate correctly the tax base and tax in output supplies to customers and the advance payment. In answers to Part (b) (ii) many candidates mentioned the company had to file a separate statement for goods supplied to EU VAT payers, but the correct time limitation was often missing.

Question 4

The Part (a) of this question of 15 marks focused on the tax depreciation of business assets. There were many good answers to the Part (a) and candidates showed a good knowledge of basic rules, however there were many errors in details and calculations that varied from candidate to candidate.

Most common errors included the following:

- Wrong input price of the house
- Failure to increase the depreciation charge of the sofa by 10%
- Incorrect commencement of the depreciation in case of the software
- Wrong input price and not applying the 50% only in case of the car

In answer to Part (b) many candidates failed to apply the basic principles for counting time in the tax procedure; for example stating a correct time limitation, but starting to calculate from the day of the event instead of the following day.

Question 5

The question of 15 marks was on the subject of the tax liability of an individual taxpayer with income sourced both in and outside the Czech Republic. Candidates demonstrated a good knowledge when calculating the tax liability of a tax resident on his worldwide income. Most mistakes occurred when the double taxation of foreign income was to be eliminated and the credit and exemption methods applied. A number of candidates showed a clear lack of understanding of how the two methods function. Some forgot to exempt the foreign income from the worldwide tax base, others failed to calculate the maximum credit capacity.

Other common errors:
- Wrong deduction for life insurance
- Not taxing or wrong value of the car provided
- Wrong calculation of the child tax credit

Despite these few errors, the overall marks to Question 5 were very good indeed.