

Examiners' report

F6 Taxation (CZE)

December 2008

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.

Almost all candidates attempted all five questions. A majority of candidates answered questions in the same order as in the paper (1, 2, 3, 4, and 5). Question 4 was most frequently omitted. Disappointingly, some candidates answered different questions than those actually asked in the paper, particularly on narrative parts. Many candidates though did attempt to answer all questions although some candidates omitted certain parts and therefore failed to obtain a majority of marks.

Excellent answers were produced for questions 1, 2, 3 and 5 and high marks were achieved by some candidates. The performance on narrative parts was not generally as good as answers requiring computations. The performance of candidates overall was good; however some candidates still remain to be unprepared for the examination.

Workings were generally shown but continue to be very difficult to follow. Some did not clearly indicate which questions they were answering. Too many candidates continue to forget to start answering each question on a new page. Handwriting was sometimes very difficult to read.

Question 1

The 30-mark question tested candidates' ability to apply corporate income tax rules in a practical example. Candidates were required to prepare a corporate income tax return for a permanent establishment of a non resident company and state due dates and how the tax overpaid should be settled. In addition to that candidates were asked to give some details of application of loss carry-forward deduction. Most candidates demonstrated a good knowledge of how the tax base is derived from an accounting profit. Many candidates correctly added back tax non-deductible expenses. No marks were lost when calculating the tax liability although the final result of the company was a loss.

Common errors in Parts (a):

- Wrong treatment of management fees and contractual penalty in the tax base
- Wrong calculation of tax deductible provisions for bad debts
- Wrong procedure or date when claiming back the tax overpayment

In Part (b) many candidates forgot to mention important details, e.g. that the transferred business has to create a distinct part of the business.

Question 2

This 25 mark question tested candidates' ability to calculate the income tax base and tax liability of an individual tax resident with an income from a partnership and demonstrate they were able to apply the respective rules on a practical example. Many candidates showed a good knowledge of guiding principles, the composition of a tax base and computation of tax allowances. However, there were many errors in details and calculations varied from candidate to candidate.

In Part (a) (i) candidates generally performed well, some did not treat the dividends correctly. Others made mistakes when calculating the partial tax base on rental income. Majority of candidates correctly stated that all income from sale of cars was exempt.

Performance on Part (a) (ii) was generally not satisfactory. Many candidates correctly stated that the dividend is generally subject to a withholding tax, however very few of them continued to give more detail on taxation of dividend received by a partnership.

Answers on Part (a) (iii) and (b) were satisfactory.

Question 3

This 15 mark question was on VAT and it was generally well answered, although performance on parts (b) and (c) was not as good as on parts (a) and (d). Preparation of the VAT tax return and stating the due date did not cause major problems, although some candidates made mistakes when dealing with goods sold abroad. Calculation of an interest charged for late payment appeared to be most difficult part of the question 3. The possibility of the supplementary tax return was omitted by too many candidates.

Part (d) was answered satisfactorily by many candidates. Candidates received full marks for stating Czech Republic or Germany instead of giving the detailed address provided in the question.

Question 4

This 15 mark question focused on the application of the research and development relief for the purpose of corporate income tax. Candidates were required to list the conditions for the relief and demonstrate their knowledge on the practical example. Performance demonstrated a general lack of understanding of some basic principles and many candidates confused the rules for the application of R&D relief with general rules for tax deductibility of expenses. Although the conditions for application of the relief may have appeared too detailed, many candidates failed to list even basic ones as a general description of the development project and identification information of the taxpayer. Candidates were receiving some marks despite not mentioning all the conditions in their answers.

Question 5

This 15 mark question was on subject of the payroll tax, individual income tax liability and social security and health insurance contributions 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 her worldwide income. Some mistakes occurred when calculating the exempt income and dealing with the contributions to the pension funds by two different employers. A number of candidates omitted calculating social security and health care contributions to be withheld by one of employers.