



Examiner's report

F6 Taxation (CZE)
December 2009

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 4:1 split requirement for computation and narrative respectively.

Most candidates attempted all five questions. Some candidates chose to answer questions in a different order than in the paper and started with a question for 15 marks before answering questions 1 and 2. Where not all questions attempted, Question 4 was most frequently omitted.

Excellent answers were presented by a number of candidates, particularly for questions 1 and 2 and high marks were achieved by those candidates. The performance of candidates overall was very good; however some candidates appear to sit the exam with very little preparation in advance.

Workings were generally shown but were at times difficult to follow. Handwriting was sometimes very difficult to read. Candidates should give more thought to the layout and organisation of their answers.

Specific Comments

Question One

The 30-mark question tested candidates' ability to apply corporate income tax rules in a practical example and their knowledge of how profit distributions are taxed. Candidates were required to calculate tax base, tax liability and tax due of a limited liability company and give details and justifications for the computations. The computation included depreciation of fixed assets.

Most candidates demonstrated a good knowledge of how the tax base is derived from an accounting profit, how tax depreciation allowances are calculated for different types of assets and which tax non-deductible expenses need to be added back. Nevertheless many of them failed to add back the loss on the sale of land.

A number of candidates failed to include mandatory social security and health care contributions on directors' fees. On the other hand some correctly stated that travel expenses over statutory limit are subject to mandatory social security and health care contributions. Candidates received full marks for this part of the question regardless of whether they calculated the respective amounts in addition to the total amount of social security and health care contributions given in the Question or whether they assumed them to be included in the total figure (as in the model answer).

Common errors in Part (a):

- Minor errors when calculating depreciation allowances
- Incorrect calculation of the depreciation charge of the machinery (depreciation commenced by Mr Novy)
- Not exempting the profit on the sale of shares in UkrKrona.

In part (b) a majority of candidates correctly stated that the profit distribution is subject to a withholding tax and that the distribution paid to KOVOS, AG is exempt. Many calculated the tax to be withheld for Mr Novy and Mr Smith without any substantial mistakes. Nevertheless correct answers as regards due dates were rare and too many candidates omitted this part.

Question Two

This question for 25 marks tested candidates' ability to calculate the income tax base, tax liability and tax due of an individual tax resident with different types of income (employment income, business income, dividends, rental income) with sources both in the Czech Republic and abroad. Candidates were also required to calculate social security and health care insurance contributions in a practical example.

The overall performance on this question was very good, though it was disappointing to see that some candidates did not apply the rules as regards the foreign tax credit correctly. Many of them showed a solid knowledge of the basic principle; however correct calculation of the maximum credit capacity and allowable amount to be credited against the worldwide tax liability was applied by very few.

Common errors in Part (a):

- Not including social security and health care insurance contributions in the partial tax base on employment income (super-gross salary).
- Not claiming repair and fuel costs connected with the car used for both business and private purposes or claiming them in wrong amount.
- Claiming mandatory social and health care insurance contributions as deductible expense.
- Wrong maximum amount of pension insurance allowance.
- Not claiming mortgage interest allowance.

In Part (b) the performance was good, except a few candidates omitted this part.

Question Three

This question of 15 marks was on VAT and tested candidate's ability to calculate VAT due by a travel agency. In part (a) a majority of candidates demonstrated a sound knowledge of the concept and calculated the VAT due with no, or only minor, mistakes. Some also applied correctly the special rules for travel agencies. Not all candidates were able to nuance their answer and make an appropriate distinction between supplies within the European Union and outside. Marking of this part was generous in particular as regards the above mentioned special rules applicable to travel agencies. Candidates did not lose substantial part of the marks if the only mistake was the omission of the special regime applicable for travel agencies.

Part (b) was not very well answered. Some candidates confused the deregistration limit with the registration threshold and time limits and very few mentioned that the cancellation would not be possible before one year after the original registration became effective.

Question Four

The Question 4 for 15 marks focused on liabilities connected with the registration with competent authorities for the purpose of corporate income tax, payroll tax, social security and health care insurance and also touched upon the tax residency rules of a company newly incorporated in the Czech Republic and its employees. Candidates were required to state due dates and calculate the first payment of social security and health care insurance contributions due for its employees. Performance in this question was rather poor particularly in those parts on tax administration. A large number of

candidates appear to have ignored the part of the syllabus on tax management when preparing for the exam and demonstrated a general lack of knowledge in this area; even though only very basic rules were tested. Some candidates omitted a big part of the question; others confused time limits for different obligations. The best answered part of this question was part (d) on fiscal year of a newly established company and part (e) on its tax residency.

Question Five

The question of 15 marks was on the subject of the social security and health care insurance contributions and tax deductible givings. In part (a) candidates were asked to calculate social security and health care insurance contributions of a resident individual with employment income including several exempt items due by the individual and the employer. This question was well answered, except some candidates forgot to include some exempt items in the calculation of the base in part (a).

In part (b), those candidates who answered, showed a good knowledge of the applicable rules. A number of candidates did not answer this part which may be interpreted as a result of a poor time management. Some candidates forgot to mention that the giving to a German charity can only be claimed in the tax return in part (b). Otherwise mistakes in part (b) appeared to be random rather than common and overall marks to Question 5 were high.