



Examiner's report

F6 Taxation (CZE)

December 2010

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 3:1 split of the requirement for computation and narrative respectively.

A vast majority of candidates attempted all five questions though a significant number of them did not answer all parts in questions 1, 3 and 4. Most frequently omitted parts were part (b) in question 1, parts (b) and (c) in question 3, and parts (d) and (e) in question 4.

High marks were achieved by a number of candidates on questions 1 and 5. Very good answers were presented by a large number of candidates on question 3.

Candidates performed less well on the narrative parts of questions than those based on computations. This may have been caused by a failure to read the content and requirements of the question.

A large number of candidates labelled, displayed and organised their answers well, although on some scripts, candidates' handwriting was very difficult to read. Workings were generally shown but were at times difficult to follow. In particular when calculating the accounting profit and the tax base some candidates appear to use various tables and symbols which are not in general use, the meaning of which was not always clear. Candidates should give more thought to the layout and organisation of their answers. For example, if candidates wish to add back or deduct any item they should state this clearly instead of using symbols such as arrows up and down. This is particularly important since marks are given in computational questions for using the correct procedures, and numerical errors are in most cases disregarded.

Specific Comments

Question One

The 30-mark question on corporate income tax aspects relating to a smaller limited liability company operating in the Czech Republic and abroad was correctly answered by a large number of candidates, particularly part (a). In addition to the application of general corporate income tax rules such as the calculation of a tax base, tax liability and tax due and giving details and justifications for the computations, candidates were required to demonstrate their ability to apply methods for elimination of double taxation of income generated from the sources abroad in parts (a) and (b). The computations also included depreciation of fixed assets.

In part (c) candidates were required to give details of taxation of prizes received by a company and by an individual taxpayer.

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 items need to be added back or deducted from the tax base. A number of candidates forgot to add back non-deductible expenses relating to the permanent establishment income and deduct the 2009 interest paid to Miriam in 2010.

A majority of candidates applied the loss allowance correctly. Those who did claim the allowance for the remaining part of the loss incurred in 2003 received the marks allocated if they explicitly assumed that CZK 110,000 of the 2003 loss was saved until 2010.

Many demonstrated a solid knowledge of the basic principles applicable when eliminating double taxation of the income with the source abroad. Some candidates calculated the maximum credit capacity and compared it to the tax paid abroad in order to get the allowable amount to be credited against the worldwide tax liability. Others correctly stated that as long as the permanent establishment incurred a loss abroad no tax can be credited

against the Czech corporate income tax. Both methods are correct therefore received full marks. Similarly in part (b) candidates received full marks if they exempted the “foreign loss”, and followed the procedure as suggested in the tax return form. Particular emphasis was put on whether the tax non-deductible expenses and the respective depreciation charge were added back correctly.

The performance on part (c) requiring candidates to show knowledge of the rules applicable to the taxation of prizes received by the company and by an individual taxpayer was somewhat disappointing. Only a few candidates included the prize received by Mina Bakery in the accounting income without excluding it from the tax base subsequently. As regards the prize received by Natalia, some calculated correctly the withholding tax but very few of them were able to state the correct due dates.

Common errors:

- Minor errors when calculating depreciation allowances.
- Failure to claim the gift allowance.
- Incorrect computation of financial lease payments attributable to 2010 fiscal year.
- Incorrect computation of tax prepayments creditable against 2010 corporate income tax liability.

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 employment income and business income. Parts (a) and (b) focused on nuances between the taxation of employment income and business income in situations where the taxpayer has certain flexibility in the organisation of his professional affairs. In part (c) candidates were required to decide whether specified expenditure can be claimed as tax deductible expenses or not.

The overall performance on this question was very good, though it was disappointing to see that some candidates were not able to distinguish between the employment income subject to withholding tax and that to be included in the general tax base. Similarly too many candidates failed to recognise that the remuneration for writing an article below CZK 7,000 per month from one payer shall not be included in the general tax base as it is subject to withholding tax.

Unfortunately some candidates failed to read the requirements of part (a) when they focused on the computation of the individual income tax due/overpaid and forgot to calculate the overall tax borne by the taxpayer. Many candidates also failed to calculate prepayments due by the employer during the year.

Some candidates forgot to mention that the parental subsidy is exempt income and therefore could not gain full marks.

In part (b) a large number of candidates correctly stated that the declaration of an individual taxpayer should be signed with the University and many also mentioned that the taxpayer, being an accredited expert, should consider transforming some of his activities from employment to business.

Part (c) was generally very well answered and many candidates obtained excellent marks for this part. Some candidates brought in alternative answers as regards costs of vaccinations, uniform, suits and course fee when classifying them as tax deductible. Those who justified their statements properly (e.g. item claimable based on contractual provision, professional development) received full marks.

Common errors in part (c):

Cost of construction, vaccinations, and sports equipment are not tax deductible.

Question Three

This question of 15 marks was on VAT and tested candidates' ability to calculate VAT due by a construction company operating also as a real estate agent. Parts (b) and (c) focused on definitions of residential and social living, and the conditions for the creation of a VAT group. Calculation of the tax base and VAT liability as required in part (a) did not cause any substantial problem, although some candidates did not identify correctly exempt supplies both on the side of input and output VAT. Nevertheless many candidates calculated the VAT recoverable with only minor mistakes.

On the other hand, the narrative parts (b) and (c) were either not very well answered or not answered at all.

In part (b) some candidates were able to state that a reduced rate can be applied to some residential houses and mentioned social living. The correct description of the conditions of social living and the distinction between a family house and a residential house was however rare.

Part (c) was omitted by many. The majority of those who answered this part mentioned that a group shall consist of related persons and that the group is registered as a single taxpayer. Very few candidates were able to produce a correct definition of related persons.

Question Four

Question 4 for 15 marks examined the knowledge of rules on depreciation of fixed assets and rules on registration of a new entity. Candidates were required to distinguish between the situations when an asset is being depreciated by a subsidiary company and when it is allocated to a branch.

The overall performance on this question was not very good. The best answered part of this question was part (a). A number of candidates even mentioned the possibility of the extraordinary depreciation available for assets acquired between 1 January 2009 and 30 June 2010 and received extra marks for doing so.

In part (b) candidates were asked to give some details of entitlement to tax depreciation and rules for depreciation of improvement costs. A majority of candidates correctly stated that an asset can be depreciated by the owner and correctly distinguished between a subsidiary and a branch with no legal personality. However some forgot to mention that any improvement to the rented property can be depreciated only with written approval from the owner and if the overall value of the improvement shall exceed CZK 40,000.

Part (c) was on the continuation in depreciation commenced by another taxpayer and required a simple computation. It was well answered by many and candidates obtained very good marks for this part.

Parts (d) and (e) tested candidates' knowledge of registration liabilities in case of the establishment of a new branch and a new subsidiary, and the corresponding penalties. Performance in this part was rather poor. Although some candidates again 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, others were able to state basic elements and gained some of the marks. A number of candidates did not attempt these parts at all which could be as a result of a poor time management.

Question Five

The last question of 15 marks was on the subject of taxation of employment income, payroll tax, tax deductibility of fringe benefits paid to employees, and social security and health care insurance contributions due by employers. A vast majority of candidates attempted all the parts of this question with very good results.

In part (a) some candidates forgot to mention the limit for tax exempt payments to the private pension fund.

In parts (c) and (d) there was confusion as regards fees to members of the supervisory board and the statutory body which are subject to mandatory health care insurance contributions but not mandatory social security



insurance contributions. In addition to that, many candidates incorrectly believed that the compensation for untaken leave was exempt from both mandatory social security and health care insurance contributions. Inclusion of the value of the teambuilding weekend and golf tournament in the base was another common mistake.