

Examiner's report

F6 Taxation (POL)

June 2010

The ACCA logo is a black square with the letters 'ACCA' in white, bold, sans-serif font.

General Comments

The overall standard of texts was disappointing. The performance indicates a lower standard of preparation, with clear indication that many candidates considered that a general knowledge of the basic corporate income tax computation and fixed asset regulations would be sufficient to achieve a pass - it is not so. Many candidates performed well in the 30 mark Question 1, but not so well in the other questions. Remarkably few candidates performed satisfactorily in questions 2, 3, 4 and 5. It is clear that knowledge of many important areas of the syllabus is shallow or missing. An analysis of performance by question follows.

Specific Comments

Question One

This Identification of what costs constituted the initial costs of an industrial building and plant presented few difficulties, with many perfect or near perfect solutions. A few candidates failed to capitalise correctly the finance and insurance costs up to date of commission, and some failed to split the costs between plant and building, a clearly stated requirement and surely a necessary one for part (b).

The depreciation calculation also produced many perfect answers, indicating good numeracy and comprehension of the complicated rules. Some calculations were unnecessarily long-winded, for example wasting valuable time to prove that 1999 plant additions were fully depreciated by recomputing ten years' worth of charges. A common error was the failure to apply the correct accelerated rates both for reducing balance depreciation and for "bad conditions".

The computation was done well by all except poorly prepared candidates, but most made several errors. The most common were forgetting to charge as expenses the costs that had not been included as fixed assets in the earlier parts of the question, in particular the remaining finance and insurance expense, misunderstanding the finance lease treatment, and failing to add back donations and then to limit the allowed ones to 10% of income. After many mentions in previous reports of the importance of the correct structure of the computation, to arrive at income and then to deduct the reliefs, the Examiner is pleased to note that many candidates did attempt to do this correctly (extremely important in this particular example), but still cannot understand why candidates do not adopt a 2 column layout clearly to show which items increase, and which items decrease the accounting profit to arrive at income.

Overall, performance on this question was satisfactory, however it is disappointing to note that many excellent attempts went on to perform very badly in the remaining questions.

Question Two

The first part tested knowledge of the cost rules and tax deduction at source on five different income sources of a lucky individual, and gave few difficulties to the well prepared student. The allowed cost against a director's fees was not known by many, and the application of the free amount was often confused. A few candidates tried to merge this response with the annual computation required in the next part, which resulted in confusion. Requirements are carefully drafted to lead the candidate logically through the various parts of a question, and candidates are urged to follow them.

The annual computation for Patrycja was not done well, with the vast majority of candidates showing no knowledge of the mechanism for dealing with a foreign source, in this case utilising the credit method. This is an important topic, albeit worth only a few marks in this paper, which must be grasped. The requirement was to compute the final tax due, and failure to deduct tax taken at source correctly was common, often as a result of chaotic workings.

The final part presented a few difficulties in computing rental income, but considerable difficulty with the taxation of gains on property disposal. The profit on disposal is a completely separate, non-cumulated source. Since the rules changed (again!) from 2009, candidates should have been aware of them and the new method of giving “rollover” relief, but it is clear that most had not studied this topic.

The question was generally not answered well, with only a handful of excellent answers.

Question Three

The major part of this question invited candidates to explain six simple but important VAT concepts to a fairly unsophisticated client. For 12 marks a clear explanation, example, and implication of each was expected. The standard of response, even among the best candidates, was disappointing. No marks were awarded for truisms, such as “taxable activity is taxable activity as defined in tax law”, a good example of professional “dretwomowa” (jargon), or “lower rates are lower rates as defined...” The actual effect of many of the six points was not explained, for example almost no candidate stated that the lower rates actually made products cheaper for the individual who suffers the tax upon acquiring, for example, food products, whereas of course such lower rates are irrelevant for registered traders. In general, a lack of knowledge of the mechanism for Intra-Community supplies was prevalent.

Whereas most candidates had some inkling of 60% and PLN 6,000 as limits for passenger motor car acquisition costs, only a small majority correctly computed the allowed VAT on the lease payment in part (b).

Giving straightforward explanations to a client is part of any professional’s skill. Performance on this question was unsatisfactory.

Question Four

Two topics were examined in this question. Flat rate tax on revenue is a common alternative to “normal” business taxation, and is supposed to be straightforward. Most candidates picked up the need to charge tax at different rates, but few remembered that a fixed asset disposal is included in taxable revenue. The application of relief proportionately against each type of revenue was generally attempted, and many recognised that the taxpayer had 3 separate reliefs. However, perfect answers were rare. The 4 “administration” marks were often not attempted, or not known well.

The second part concerned social security contributions for 3 individuals. Whereas many computed the cost in the month a wage earner crossed the upper earnings limit correctly, the reduced charge for a new businesswoman was largely unknown, and considerable confusion was exhibited concerning due dates and self-employed and contractor’s contributions. Performance on this question was poor.

Question Five

Few candidates correctly applied the cumulative method of arriving at monthly tax base after loss relief, which is a basic concept in both income taxes. Most common was the failure to require twice the November liability to be paid on 20th December. The apportionment of tax payments on account against arrears and penalty interest was done poorly by most.

Very few candidates knew the two circumstances (foreign and family connections) defined in both income tax laws, although a mark was awarded for any discussion of the detailed types of control that would trigger the application of the transfer pricing rules. On the other hand, explanation of two methods used to obtain a fair price was often very good.

Conclusion

It seems apparent that most candidates did well on Question 1 and the very last part of Question 5. These are possibly areas within the day to day experience of many. Reasonable knowledge of basic VAT in Question 3 was clouded by inadequate explanations. However, it seems that large areas of the syllabus, as evidenced in many



poor answers to the remainder of the paper, had not been studied in sufficient depth by many candidates. Layout and tabulation were often poor, making answers difficult to follow.