# Examiners' report

## F6 Taxation (POL)
## December 2007

This was the first Polish Tax examination under the new syllabus and with a new examiner. It comprised five compulsory questions, two longer ones for 30 and 25 marks on corporate and personal income tax, and three 15 mark questions covering the whole syllabus.

Most candidates attempted all questions, although there was evidence of time pressure in the later questions, where layout was often difficult to follow, and where candidates had not allowed themselves time to think and plan their answers.

Failing to read and follow the requirements and wasting time providing unnecessary calculations, together with disorganised layout of answers, caused many candidates to do less well than their ability and knowledge would justify.

It was pleasing to see that a good proportion of candidates passed, many with excellent texts. However a significant number of candidates were badly prepared, thus failing the exam. Thus certain gaps in knowledge and technique were exhibited, dealt with by question below.

**Question 1**
Students are used to seeing the major part of Question 1 comprising a corporate income tax (CIT) computation, so not suprisingly most students did well on this question, with only a small minority failing to get half marks. These candidates were clearly poorly prepared and almost all went on to fail the whole examination.

The computational part presented few difficulties: some candidates forgot to claim losses brought forward and many failed to follow the systematic order of arriving at income before deducting reliefs. Some forgot to deduct witholding tax on royalties and dividends received.

The technical parts of the question, for 13 out of the 30 marks, covered dividend tax credits, rules for change of accounting date, and the optional simplified method for monthly payments of tax.

Dividend tax credits, including foreign tax, caused few difficulties although many got confused with the new EU (and Polish) regime which does not require witholding of tax for shareholders of over 10% of a company's capital. For other shareholdings witholding tax applies. I remind candidates that Polish dividend witholding tax will not be deducted from normal tax liability in the future, but old credits from before 2007 will always be deductible, and as a special (transitional) concession tax credits still apply for 2007 dividends. Overall this part was answered well.

Many students confused the length of new accounting period following change of date with the rules for opening period and also confused the notification deadline with that applicable to opting for the simplified method for payments. Virtually all candidates stated that losses in the relevant base years prevented the application of the simplified method, when for some time now the restriction has applied if no tax was due for the basis years: confusion also existed on the relevant tax year, rate and correction for periods of differing lengths.

**Question 2**
The personal income tax (PIT) question 2 was straightforward, concentrating on the major cumulated sources of revenue in three uncomplicated examples. It was not answered as well as expected, with many candidates failing to earn half marks; many that did pass gained a marginal mark, so excellent answers were rare.

The question presented the tax affairs of 3 brothers. Lech, with director's fees and rental income, presented few difficulties for 11 marks. Many candidates applied 'joint taxation' rules although he had divorced in the year and most had not heard of the new child relief (to which so much publicity had been given as the October election approached!) or they computed it incorrectly.

In the case of Czech (8 marks) most failed to include his court expert earnings. Candidates are reminded that revenue from individual activity, after allowed costs, is to be cumulated. The computation of income from employment was generally done quite well with some errors on travel expense reimbursement, and again child relief.

Rus (6 marks), with simple foreign earnings, was universally answered poorly. Only a few candidates correctly claimed 30% of the daily foreign travel allowance, and, although many computed effective rate, a considerable number gave credit for foreign tax, when exclusion of foreign income was to be applied. Candidates are advised that understanding of the two methods of double tax relief, for both CIT and PIT, will be examined.

Candidates are advised that the major CIT and PIT questions will not only require computation of income or tax liability, but knowledge of procedures, principles and deadlines.

**Question 3**
The third question concerned partial exemption with a monthly tax return to be done in part (a). Total Figures for the previous 11 months were given to perform the annual correction requirement of past (b). Surprisingly many candidates wasted time doing a "tax return" for this 11 month period which was not asked for. (Nobody does an 11 month VAT return!).

The monthly return was done well by most, and most got to the annual percentage correctly, using the 11 month to date plus December data correctly. However, the annual correction was generally performed incompletely, with few candidates correcting the prior year's fixed assets allowed VAT.

The third part required candidates to consider how the business could improve its tax affairs. Very few candidates realised that considerable disallowable VAT on advertising could be reduced by not allocating the cost between taxable and exempt activity, which the pedantic accountant, Zosia Dokladniutka had decided to allocate. A taxpayer is not required to allocate a particular cost: if he chooses not to do so the global percentage split is applied.

Candidates will occasionally be invited to demonstrate their understanding of taxation by applying basic planning techniques.

Almost half of candidates failed to achieve 8 out of 15 marks on this question.

**Question 4**
Question 4 showed that depreciation and valuation rules for fixed assets are not that simple. Nobody correctly allocated interest on relevant borrowing up to the date of technical acceptance of a major capital investment project, although most of the other investment costs were treated correctly.

Since this was a June 2007 business the 30% first year allowance rules could be applied for new plant, but again nobody applied the more favourable reducing balance method at three times the standard rate.

Similarly very few candidates capitalised the disallowed VAT on a passenger car.

Other elements, including the second year depreciation charge at reducing balance following a 30% first year claim in year 1 were not always done correctly.

Only a few remembered to answer the element asking for other allowed costs.

Fixed assets feature regularly in examinations, so must be well understood. Incidentally, the 30% first year depreciation allowance ceases from tax years commencing after 31st December 2006, but rules for subsequent years need to be remembered.

**Question 5**

Part (a) of question 5 concerned the interesting intricacies of the system for computing the large range of taxes to be deducted from salaries. The question stated that there were exactly four different situations facing Udany during the year, and a little thought would have told candidates what they were. His salary was exactly five times statistical average salary. Since the upper earnings limit for ZUS is set at 30 times this average salary, he stops paying the full ZUS contribution from July. Only a very few realised that, and some candidates listed all 12 months of calculations, wasting much time. Simple layout (as requested) would have helped to work out when he was to fall in to the higher rates of PIT.

Nonetheless most candidates seemed to understand the structure of the PIT and Social Security and Health Contributions quite well. However, answers were poorly tabulated and generally chaotic. In particular the question asked to compute total deductions made for each month, so time was wasted computing net pay and first deducting 7.75% health contribution from income tax and then adding 9%, when a simple calculation of the true extra cost of 1.25% would have been quicker. Calculation of net income was also not requested, but was done by many candidates, who had not read the requirement carefully.

Clear thinking and tabulation of sometimes complicated calculations are skills expected of candidates. In part (a) a little planning of lay-out of answer would have enabled the computational element to have been done efficiently.

In part (b) where Udany is going to register as "self employed" surprisingly few candidates realised that with his high earnings he would register for 19% straight line tax. The question, logically, only asked for a month's deductions ( to compare to part (a)), and many candidates performed annual calculations. This part was not answered very well, with some candidates clearly under time pressure.

Fewer than half of candidates scored over 7 marks out of 15, generally as a result of disorganised workings that could not be followed rather than complete lack of technical knowledge.