

Examiner's report

F6 TAXATION (ROM)

June 2011

The ACCA logo consists of the letters 'ACCA' in a bold, white, sans-serif font, centered within a solid black square.

General Comments

The examination consisted of five compulsory questions (question 1 for 30 marks, question 2 for 25 marks and three further questions of 15 marks each) with an approximate 1:1 split requirement for computation and narrative respectively.

Most candidates attempted all five questions. The best answered was question 1, followed by question 2 and questions 4(a) and 5(a). Questions 3 and 4(b) were less well answered, and question 5(b) was most frequently omitted.

Good answers were presented by many for all five questions. Overall candidates performed well and a large number of candidates are to be congratulated for having prepared for the examination. Candidates who performed well carefully read the content and requirements of questions and so were able to answer the narrative elements to questions, and give reasons or examples when asked to do so.

At this sitting improvement was evident in candidates' abilities to organise their answers. Workings were generally shown, although they were difficult to follow at times. Candidates are reminded that each question should be started on a new page, with workings numbered so that it is clear to which question part they relate. Candidates are advised to give careful thought to the layout and organisation of their answers during the examination.

Specific Comments

Question One

Question 1 was a 30 mark question on the subject of corporate income tax.

In parts (a) and (b) many candidates identified correctly all non-deductible expenses and all non-taxable revenues. Almost every candidate knew the difference between accounting and tax depreciation and that the sponsorship triggers a tax credit.

The most common mistakes in calculating corporate income tax were:

- Not computing the legal reserve;
- Correctly computing the tax reserve but not identifying that, in 2011, no legal reserve should be constituted;
- Confusing the corporate income tax limit of deductibility for social expenses of 2%, with the personal income tax employment benefit limit for non-taxable gifts of 150 lei/person (both are provided in the tax rates and allowances section of the paper at each sitting);
- Not identifying that sponsorship qualifies for tax credit only if the company has a contract according to the sponsorship law.

Part (c) was well answered by most of the candidates who correctly identified both the differences in corporate tax to be paid and the deadline.

Those candidates who attempted part (d) identified correctly that both interest and penalties should apply but found it difficult to compute accurately the number of days of delay.

Part (e)(i) was well answered by almost every candidate who demonstrated very good knowledge of the rules exempting dividends from tax. In part (e)(ii) many candidates computed the tax on the net, rather than the gross dividend.

Part (f) was short and narrative and many students answered well, proving good knowledge on tax loss recovery rules.

Question Two

Question 2 was on personal income tax and was well answered.

Part (a) required the computation of the income tax due on employment income and proved to be straightforward for candidates.

The most common mistakes were:

- Not including in the taxable income the voluntary pension contribution paid by the employee above the legal allowed limit of 400 euro/year;
- Including in the taxable income gift vouchers only for the value which exceeded 150 lei/person and not the whole value;
- Not subtracting gift vouchers from the taxable base to which social contributions apply;
- Not deducting the voluntary pension paid by Mr Melon within the limit of 400 euro/year, when computing income tax.

Part (b) tested the alternative systems of taxation for rental income and proved to be the most difficult part of this question. Many candidates identified the real system and lump-sum system as the main alternatives, and a few of them correctly and fully described those systems. A small number of candidates identified the situation when lump-sum prepayments are considered final tax, and presented the compulsory exception for applying the real system when more than five rental contracts are used.

In parts (c) and (d) many candidates did not read the text of the question requirement carefully, confusing the names of Mr and Mrs Melon. Despite some candidates mixing up the answers to these two part questions, many candidates computed correctly the income tax due for rent income, interest income, pension income and intellectual property income. A few candidates correctly answered the narrative part of question 2(c) by explaining who has the obligation to pay and declare the tax and what are the deadlines.

Question Three

This question was on the subject of value added tax (VAT) which candidates found it hard to answer well.

In part (a) a few candidates presented good definitions for the concepts. The most common mistake was defining “taxable person” as “registered for VAT person” rather than as “a person who, independently, carries out in any place any economic activity, whatever the purpose or result of that activity”.

Candidates are reminded to pay close attention to the requirement when asked to give examples to gain marks.

Candidates proved to be less well prepared as regards computation of the VAT thresholds for registration and tax periods required in part (b), although the thresholds are provided in the tax rates and allowances section of the paper at each sitting.

In part (c) candidates found the computational part of the question more straightforward than the narrative part. Few candidates presented correctly the general VAT rules requested in question (c)(i), but many candidates solved correctly part (c)(ii), proving that they know how VAT should be applied but find it harder to explain why it should be applied in this way.

Question Four

This question focused on corporate income tax and some VAT issues.

There were many good answers to part (a), which considered the corporate income tax treatment of seven types of expenses. Those candidates who read carefully the requirement presented correct answers to the tax treatment *and* gave their reasons for those treatments.

Part (b) was on VAT and was less well answered. A few candidates are to be congratulated on correctly identifying the adjusting events and computing the value of the adjustment of the input VAT.

Question Five

Part (a) required the computation of income tax under three scenarios and proved to be straightforward to candidates as many of them gave correct answers.

Part (b) required candidates to compute tax burdens. Candidates needed to compute tax burdens as the ratio (percentage) of incomes earned.

A few candidates presented the non-tax factors to be considered when deciding between employment and self-employment.