

Examiner's report

F6 TAXATION (ROM)

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 of 15 marks each) with an approximate 2:1 split requirement for computation and narrative respectively.

Most candidates attempted all five questions. Where not all questions were attempted, Question 3 was most frequently omitted, and Questions 1 and 5 were less well answered. The best answered was Question 2, followed by Question 4.

Good answers were presented by many for all five questions. Overall candidates performed well as a large number of candidates appeared to have prepared for the examination.

Candidates who did not perform well did not carefully read the content and requirements of questions. This contributed to poorer performance on the narrative elements to questions.

Too many candidates displayed their answers poorly, with a lack of clear labelling to indicate which questions were being attempted. Workings were generally shown but were at times difficult to follow. Each question should be started on a new page and candidates are advised to give careful thought to the layout and organisation of their answers.

Specific Comments

Question One

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

In part (a) almost every candidate knew the rules for the prepayments of tax for credit institutions.

In part (b) the most common mistakes in calculating corporate income tax were:

- Not taking into account the PE values when computing corporate income tax;
- Not computing correctly tax depreciation and accounting depreciation;
- Failure to identify non-taxable revenues;
- Failure to compare corporate income tax with minimum tax.

Part (c) tested the settlement of corporate income tax and was well answered by many candidates, although a number of them did not actually compute the amount of tax to be refunded.

Part (d) proved to be difficult for many candidates who were unable to identify both deadlines for dividend payment and rules on tax exemption.

Question Two

Question 2 was on personal income tax and was the most well answered question.

Part (a) required the computation of the income tax due and proved to be the most difficult part. Few candidates knew that to correctly compute the net income it was necessary to use the number of days worked by the individual. Many candidates proved to have no knowledge of the income quota system.

Part (b) tested the rules for tax prepayments and proved to be straightforward, with most candidates giving a correct answer.

Parts (c) and (d) required calculation of the final income tax due and settlement dates, respectively, and were well answered. Most students knew to compute the tax on a cash basis and knew how to apply the limits of deductibility.

Part (e) proved to be difficult as candidates once again proved to have little knowledge of the income quota system.

Part (f) was well answered by many candidates, however, several candidates confused employee with employer contributions, so were unable to pick up all of the marks available.

Question Three

This question was on the subject of value added tax (VAT) and it was the most poorly answered.

Part (a) proved to be difficult. Although many candidates identified learning activities as exempt, few of them knew not to deduct the VAT for acquisitions relating to learning activities. A small number of candidates knew how to apply correctly the VAT pro-rata mechanism. Similarly, few candidates proved to know the rules for VAT deductibility for cars and fuel.

Part (b) was the most difficult of all questions. Very few candidates knew to adjust VAT using the final pro-rata.

Question Four

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

There were many good answers to part (a), which considered the tax treatment of a gift. Some candidates still confused the rule of deductibility of a gift and applied the same rule for corporate income tax as for personal income tax.

Part (b) was well answered by most candidates, who knew how to identify the dependent persons and how to compute the personal deduction.

Parts (c) and (d) proved to be rather difficult as many candidates confused the calculation of prepayments of tax for intellectual property (part (c)) with the calculation of final tax (part (d)), and applied the lump-sum expenses when computing prepayments and not when computing the final tax.

Part (e) was well answered by many candidates who knew that employment is not in the scope of VAT. Yet, many candidates failed to identify the transfer of intellectual property rights as an activity within the scope of VAT.

Question Five

Parts (a) and (b) were on corporate income tax. Although many candidates knew to make a distinct computation of corporate income tax for trade and for the discotheque activity, many candidates failed to identify minimum tax distinctly for each activity.

Part (c) was on tax registration procedures and proved to be difficult as very few candidates knew the rules on declaring secondary establishments.

Part (d) was on tax procedure and was well answered by many candidates who proved to know the mechanism for computing tax penalties. Yet, a number of candidates did not read carefully the text of the question and computed the penalties until 1 March rather than in two phases: the first until 27 February, and the second until 1 March, as the question requested.