Examiners' report

F6 Taxation (RUS)
June 2008

This was the second examination under the new syllabus and it consisted of 5 compulsory questions (Question 1 for 30 marks, Question 2 for 25 marks, and Questions 3, 4, and 5 for 15 marks each).

Many candidates attempted all five questions and there was no evidence of poor time management. The number of candidates who attempted questions 1 and 2 as the last ones, showed good performance in all other questions and had enough time to gain sufficient marks and receive a pass mark in total. Among questions 3 to 5, question 3 was the most frequently omitted. In reality, question 3 was not a difficult question, but it required technical knowledge in both value added tax (VAT) claw-back rules and VAT on debt selling transactions. There were several good answers to this question.

On the contrary, questions 1, 2 and 5 were the most popular questions among the candidates, and they gained good marks for their work done.

Excellent answers were presented by many candidates for both questions 1 and 2. As a result, high marks were achieved by these candidates for these questions.

The overall performance of candidates was satisfactory, with a number of candidates appearing to be very well prepared for the examination.

Workings were generally shown but were at times very difficult to follow. Many candidates wrote different parts of the same question on different pages, without sequence, and without clear references or links between them. There were several candidates who displayed their answers in both pen and pencil, and without clearly labelling which questions were being attempted, which made the review very difficult.

Each question should be started on a new page and candidates must give more thought to the layout and organisation of their answers.

As a result of all questions being compulsory this exam may be perceived to be more difficult for candidates. In reality, the overall performance showed that candidates didn't have a problem with time pressure during this exam, and managed to start all questions although sometimes there was a lack of technical knowledge.

Question 1
This 30-mark question tested candidates' ability to cope with the various aspects of the core subjects of profits tax and VAT applicable for a trading company.

Overall, the question was very well answered with few candidates not providing answers. Candidates often demonstrated good appreciation of the practical aspects of the scenario described in the question, especially in calculating the limited medical and life insurance, insurance against the risk of accidents at work, limited advertising and entertainment expenses, and interest expenses

Performance might have been even better if candidates improved their presentation skills and tried to be more attentive to the scenario.

Common errors included:
Part a)

- applying incorrect formula to allocate transportation expenses between the cost of goods sold and the balance to be carried forward
- calculating depreciation based on VAT inclusive amounts for passenger cars, mini vans and exhibition samples; frequently forgetting about the quantity of fixed assets; and using incorrect formula to calculate non-linear depreciation

- including unified social tax for insurance limits calculation
- application of limit for advertising expenses to the VAT inclusive sales
- application of limit for entertainment expenses to the labour costs without insurance expenses
- including the bad debt expense net of VAT into non-sale expenses
- incorrect CBR rate application for interest calculation

Part b)
- ignoring the scenario statement on 90% of invoices received for local goods
- not applying VAT recovery figure within the limit for profits tax purposes in respect of both advertising and entertainment expenses

The overall performance to this question was really good with significantly high marks.

Question 2
In part a) of question 2, technical aspects were examined in relation to taxable and deductible items, as well as the application of different deductions for personal income tax purposes. The common mistakes were as follows:
- personal income tax liability of Alla withheld at source:
- including Alla's husband medical voluntary insurance into the taxable base
- including imputed interest on the corporate mortgage loan into the taxable base
- including items that can not be withheld at source and which should normally be included into the final settlement of Alla's personal income tax in part b)

Part (b) required the calculation of the final settlement of Alla's personal income tax liability. Common errors were:
- including education deduction for children in social deductions max. limit
- forgetting maximum limit for social deduction resulting in incorrect allocation of social deductions, in spite of the data given in rates and allowances
- ignoring scenario data on shares of ownership for the new apartment
- not including educational deduction for her son's evening lessons

In part c) many candidates managed to calculate Michael's gross remuneration by the agency, correctly applied his daughter's educational deduction, and the social deduction for the donation.

But during the calculation of gross remuneration, candidates forgot to include children allowances to gain the maximum available marks. All other points were answered rather well except for interest expenses. The relevant 35% rate of personal income tax for imputed interest on the bank loan was not applied by many candidates due to lack of technical knowledge.

The overall performance to this question was good with a sufficient level of marks.

Question 3
Question 3 was related to VAT issues and seemed to be the most difficult question for candidates. However, many candidates attempted this question.

The aim of part a) (i) for question 3 was to examine the rules for calculating VAT for both a company selling customers debts and for a company reselling purchased debts. This subpart was more or less calculated correctly.

Part a) (ii) examined basic theoretical knowledge on VAT recovery rules. Unfortunately this part was ignored by many candidates.

Part b) required the calculation of the VAT claw-back amount as a result of the transfer of two constructed fixed assets (treated as real estate objects) to VAT-exempt activity in 2008.

Many candidates clearly identified the requirements by writing the procedure that they should follow, but without real calculations. The reason for this may have been due to leaving this question to the end of the exam.

Question 4
This question focused on personal income tax issues with respect to selling different types of securities.

Part a) of this question was answered without any difficulty by the majority of candidates.

Part b) was also attempted, with more or less success, by many candidates. The purchase price of securities sold was calculated easily, although there were some mistakes in calculating selling income, due to a lack of attention to the scenario data. Weighted average price was also calculated for Trend shares. Including the gift from the distant relative into taxable income was recognised by several very well prepared candidates. In addition, other expenses were correctly pro-rated.

Question 5
Part a) (i) of the question required candidates to calculate personal income tax on expenses incurred during the business trip of an employee. Most candidates achieved good marks based on their knowledge of this issue, since it was a very practical scenario.

However, there were still some answers where candidates tried to include all non-taxable expenses such as airfare, accommodation, and taxi into the taxable base for personal income tax. In general many candidates attempted this part successfully and they got very good marks.

Parts a) (ii) and (iii) of this question required candidates to calculate unified social tax (UST) for an employee under a labour agreement as well as a person working under a civil law agreement. This part was also well done by many candidates, with them clearly identifying items which are excluded from the UST base for two main reasons.

Part b) of this question focused on tax to be withheld on dividend distribution for three various scenarios. The most common mistake was ignoring dividends received from the subsidiary.

Well prepared candidates gave very comprehensive answers on the rule for when the dividend should be taxed at 0% rate, by explaining all the relevant criteria.

The different rate of withholding tax on dividends to non-residents was also recognised correctly by many candidates.

Overall this question was answered rather well by candidates.