



# Examiner's report

## F6 Taxation (RUS)

June 2009

### General Comments

This examination under current syllabus consisted of five compulsory questions (Question 1 for 30 marks, Question 2 for 25 marks, Questions 3, 4, 5 at 15 marks each).

Many candidates attempted all five questions. Even those, who attempted less than five questions managed to answer them in a good manner to gain the pass marks. So, there was no evidence of poor time management. Among compulsory questions from 3 up to 5, Question 5 was the most frequently omitted. Question 5 was not a difficult question, but required technical knowledge with regard to thin capitalisation rules. Question 3 took the second place in the non-attempting row of questions. During this session Question 3 was a straightforward question and should be solved without any difficulty for those who were prepared for the exam. At the same time there were several good answers to both Question 3 and Question 5.

On the contrary, Question 1, 2 and 4 were the most popular questions among the candidates and they gained good marks for their work done.

Good answers were presented by many candidates for both questions 1 and 2. In respect to question 4 candidates performed satisfactorily. As a result, sufficient marks were achieved by a number of candidates for these questions to gain a total pass mark.

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

Workings were generally shown but sometimes it seemed to be very difficult to follow them. I was surprised to see a lack of number of questions attempted in the new convenient examination script layout with the special box at the top of the page. There are several candidates who displayed their answers in pencil and without clearly labelling questions attempted, which made the review more difficult.

Each question should be started on a new page with the indication of question number in the relevant box and candidates must give more thought to the layout and organisation of their answers for mutual benefit for both of the candidates and markers.

Overall performance showed that the candidates didn't have a problem with time pressure during this exam, managed to attempt all questions, most of the questions were answered in a correct way, but had sometimes lack of technical knowledge.

### Specific Comments

#### Question One

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

Overall the question was well answered with many outstanding answers. Candidates demonstrated good appreciation of the practical aspects of the scenario described in the question, especially in calculation of non-linear depreciation, based on correct formulas, limited voluntary medical insurance, limited voluntary insurance against risk of accident, limited advertising expenses, interest expenses at correct foreign exchange rate, correct forex gain as well as correctly showing net of VAT relevant expenses.

Performance might be even better if candidates improve their presentation skills and try to be more attentive to the details in scenario.

Common errors included:

Part a)

- ignoring the fact that historic cost of fixed assets were given as inclusive of VAT and as a result all consecutive calculations were done based on the gross basis with VAT.
- ignoring the fact explicitly stating in the scenario that non-linear method of depreciation should be applied from the year 2009
- including unified social tax for insurance limits calculation
- forgetting the substance of advertising expenses subject to no limitation for deductibility purposes and reclassifying them as limited expenses
- calculation of imputed interest income where calculation of interest expenses booked are required

Part b)

- Calculating VAT on different kinds of insurance
- Calculating VAT on imputed interest income
- Incorrect formula for calculating VAT on limited advertising expenses
- The overall performance in this question was good with significant marks gained

### **Question Two**

In question 2 technical aspects were aimed to examine taxable and deductible items as well as application of different deductions for personal income tax purposes. The common mistakes were the following:

In part (a) personal income tax liability of Victoria withheld at source:

- including her medical insurance in Victoria's taxable income
- including her husband's insurance in her taxable income
- not-recognising correct amount of children allowance applicable to her
- calculation of imputed interest income in the year 2009 in spite of the lack of interest payments during the year 2009

(b) final settlement of Victoria's brother personal income tax liability:

- application of 1,000,000 as a property deduction ignoring his ownership period

It should be noticed that most of the candidates recognised correct answer in part b) of Question 1.

c) final settlement of Victoria's income tax liability:

- Application of 1,000,000 as a property deduction for the sale of 50% share in apartment and ignoring the real costs attributable to it and supported by documents
- Including in Victoria's social deduction education amount of her husband and/or education amount of her daughter
- Calculating tax on inherited apartment received from her father

In respect to part d) many candidates managed to calculate correctly Michael's final settlement of personal income tax liability and correctly applied all relevant allowances and deductions. The only difficulty seemed to be insurance income for minority of candidates. However, majority of candidates gained very good results on this part of Question 2.

The overall performance in this question was good with sufficient marks gained by many candidates.

### **Question Three**

Question 3 examined VAT issues.

Part a) VAT was aimed to examine basic principles for allocation input VAT between recoverable part and other part subject to inclusion into the cost provided that proportion of exempt costs in total period costs exceeds 5%.

Most of candidates started answering this question from proportion of exempt sales in total sales, output VAT for the 1<sup>st</sup> quarter, input VAT for Vatable operations to gain the more easy marks. Nevertheless a number of other candidates managed to allocate input VAT for vatable and exempt operations between recoverable portion and the cost of sales in a correct manner.

Part b) reviewed candidates' technical knowledge on VAT recognition and timing applicable to both parties in commission agreement. I would say this part was also straightforward question if the candidates understand the main issues of VAT obligations between parties in commission agreement.

Most of candidates concentrated on part a) of this question and only a few candidates completed part b) in full with the very good results.

### **Question Four**

This question focused on the personal income tax liability as well as on unified social tax liability for a person in the role of individual entrepreneur.

Many candidates who attempted this question gained sufficient marks to gain a pass rate overall.

In respect to part a) many candidates correctly applied business deduction at 20% rate, identified the fact that no deduction of UST should be applied in this scenario, correctly mentioned development and construction expenses potentially subject to housing allowance, identified prize in lottery subject to 35% rate. However the following common mistakes were revealed:

- housing allowance has been applied to purchase plot of land
- interest accrued on bank loan for the plot of land was added to the housing allowance
- incorrect % was applied to imputed interest on bank loan for the plot of land instead of 35%.

Regarding part c) effect on decreasing personal tax liability due to increased level of professional deduction was usually identified. However the relevant UST impact on personal income tax liability was usually omitted.

#### **Question Five**

Part a) of the question required candidates to analyse debt financing options in a most tax efficient way. Many candidates seemed to be not very well prepared for this question from a technical viewpoint and tried to earn only several easy marks. Example: showing correct formulas for own capital, thin capitalisation ratio, maximum limit of deduction but without real analysis.

The typical mistakes were the following:

- incorrect calculation of own capital without taking into account tax liabilities
- incorrect forex exchange rate for calculation of both principal debt and interest as of 31 March 2009.

Only few answers showed real comparison, analysis and recommendations in respect to debt financing from different companies as required.

Part b) of this question did not require any calculations. Only the taxation rules should be identified applicable to tax withholding to dividends payments in the described scenario.

I would say that most of the candidates successfully answered this part of the question and listed the criteria for dividends subject to tax exemption.