

Examiner's report

F6 Taxation (RUS)

June 2011



General Comments

This examination under the current syllabus consisted of 5 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 of those who attempted less than five questions, many managed to answer them in a sufficient manner to gain the pass mark. There was no evidence of poor time management. Questions 3 part (b) ii), and Q4 parts (b) and (c) were frequently either omitted or partly answered

However Q3(b)(ii) was a simple question on understanding the principle of VAT recoverability in the case of 0% sales. Q4(b) was answered mainly for the interest calculation only. Candidates also struggled with Q4(c) which seemed to be due to lack of knowledge.

Questions 1, 2, 4(a) and 5(a) were the most popular questions amongst candidates and these questions were generally answered very well. Outstanding answers were presented by well prepared candidates for questions 1 and 2 for the full answers, partly for questions 4 and 5.

The overall performance of candidates was quite good.

Workings were generally shown but sometimes it seemed to be difficult to follow them. There is improvement as compared to previous exams but still many candidates did not tick the question number box on the top of the answer booklet to indicate which question they were answering. This is especially critical when the answers are provided not in order in the script.

Each question should be started on a new page with clear indication of the question number which is being attempted by the candidate. Furthermore candidates must give more thought to the layout and organisation of their answers.

Overall performance showed that the candidates didn't have a problem with the time pressure during this exam, they managed to attempt all questions, most of the questions were answered using correct methodology which allowed the majority of candidates to gain pass marks.

Specific Comments

Question One

This 30-mark question tested candidates' ability to cope with the various aspects of core subjects of both profits tax, taking into account the impact of exchange rates, allocation of direct expenses, limited advertising expenses and interest expense and 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 the calculation of indirect non-linear depreciation, social insurance contributions on indirect salary expenses, limited advertising expenses, interest expense taking into account limit for deductibility, and the foreign exchange loss.

However the performance might be even better if candidates try to be more attentive to the details in scenario and do not make the following mistakes:

Part (a)

- Forgetting net of VAT application to the opening balance of both inventory and transportation expenses
- Including social insurance contributions into the base for labour costs
- Including voluntary medical insurance for relatives into the deductible part of expenses
- Calculation of depreciation for notebooks in stead of write-off based on limit for recognising fixed assets
- Application of 6% to revenue for advertising expenses subject to limitation
- Ignoring limitation to advertising prizes
- Forgetting the interest calculation on a monthly basis

Part (b)

- No VAT on prepayment
- Forgetting % application to both VAT on inventory and transportation expenses
- Forgetting VAT calculation and application relevant % to fixed assets purchased
- VAT application to insurance
- Forgetting application of relevant % to VAT on advertising prizes

The overall performance to this question was good with several outstanding answers.

Question Two

In question 2 taxable and deductible items were examined, as well as the application of different deductions for personal income tax purposes for Andrey and his wife Jana. Common mistakes included:

In part (a) personal income tax liability of Andrey withheld at source by Maxilev:

- Net-off VAT birthday gift received
- Net-off VAT bonus in the form of incentive trip
- Forgetting to include 7,000 RR as a social deduction with respect to the employer's withholding to the non-state pension fund
- Including his personal voluntary medical insurance and medical insurance for his wife in taxable income
- Not recognising that imputed interest income on the corporate loan for the plot of land will not be subject to tax

In part b) final settlement of Andrey's personal income tax liability for the year 2011:

- Non-treating the sale of inherited plot of land as an exempt item
- Including 7,000 RR into social deduction for final settlement
- Application of 2,000,000 RR property allowance in the final settlement
- Non-applicability of social deduction to education for his sister Marina

In part (c) final settlement of Jana's personal income tax liability for the year 2011:



- Incorrect tax base for professional deduction application
- Children allowance was not always correctly applied
- Educational deduction for Jana's part was ignored
- Application of 1,000,000 RR deduction rather than actual costs confirmed
- Application of 13% tax rate to lottery prize received instead of 35%

In part (d), regarding property deduction for Jana for the year 2009, many candidates recognised that Jana has a right for this deduction even in the year 2011 but only a few candidates correctly mentioned the period limitation and the amount of the deduction.

The overall performance to this question was good, especially for parts (a) and (c).

Question Three

Question 3 examined VAT issues.

Part (a) examined VAT issues for a prepayment made and the relevant VAT invoice received.

It should be noted that part (a) (i) and (ii) of Question 3 were quite straightforward questions. Many candidates prepared good answers to this part with the following exclusions:

- Forgetting the claw-back for the previously recovered VAT in Q2
- Lack of explanation of other requirements in the tax law for VAT recovery or
- Confirming the point that the VAT invoice is the only sufficient condition for recovery

Part (b)(i) was also quite a straightforward question requiring calculation of the VAT liability relating to separate VAT accounting for both exempt sales and taxable sales. Many candidates attempted this part and showed quite a good understanding of VAT separate accounting principles and their application.

Part (b)(ii) aimed to review the impact on the VAT liability in the case of export, instead of exempt operations. It should be pointed out that few candidates attempted this part and correctly explained the impact in spite of easy marks in substance for this part of question 3.

In summary, question 3 was answered based on residual principle by candidates, attempting parts (a)(i) and (b)(i) in a satisfactory manner.

Question Four

Part (a) of this question focused on the personal income tax liability for Alexander Kustovskiy withheld by his employer provided that he did not manage to submit the entitlement to housing allowance before the year-end.

In part (a)(i) the majority of candidates correctly calculated the imputed interest income and applied 35% tax rate in the correct right way.



One mistake was incorrect application of children allowance in spite of the gross salary exceeding the threshold of 280,000 RR for Alexander.

In part (a)(ii) well prepared candidates managed to indicate the option with tax authorities and at the same time mention the deadline for submitting tax return.

Part (b) was not answered as well as part (a). For instance, costs relating to construction of the residential house were taken into account without VAT. Well prepared candidates showed social insurance contributions for workers' wages, and correctly applied the property deduction, including the interest part.

Regarding part (c), many candidates could not explain their answers even if the answer given was saying that there was no impact on PIT for Alexander. The reason could be lack of technical knowledge on this point.

The overall performance of this question was satisfactory.

Question Five

Question 5 consisted of 2 parts.

Part (a) of the question required the calculation of deductible interest under different debt financing options for two quarters.

It should be pointed out that only few candidates recognised the direct impact of negative net assets and did not calculate the deductible part of interest for the relevant loans for Quarter 3.

However all other points were answered in a good manner, with clear identification of deductible interest for Quarter 4, taking into account special rules for limitation.

Part (a) was attempted by many candidates.

As for part (b), it was attempted by candidates, but they calculated redundant things such as withholding tax on dividends. It seemed to be the fact that there was a lack of technical knowledge on this part.

Overall the performance on this question was moderate.