



Examiners' report

F6 Taxation (RUS) December 2008

This examination 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 and there was no evidence of poor time management. At the same time there were several candidates who managed to answer only four questions and still obtain a pass mark. Among compulsory questions from 3 up to 5, question 5 was the most frequently omitted. In reality, question 5 was not a difficult question, but required technical knowledge with regards to thin capitalization rules. At the same time there were several good answers on this question.

Questions 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 questions 1, 2 and 4. As a result, sufficient marks were achieved by a number of candidates for these questions to gain in total pass mark.

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

Workings were generally shown but were at times very difficult to follow. It was surprising to see a lack of questions being 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 really difficult. It is important that the answers are written in black ink.

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.

Overall, performance revealed candidates did not have a problem with time pressure during this exam and managed to attempt all questions but seemed to have a lack of technical knowledge.

Question 1

This 30-mark question tested candidates' ability to cope with the various aspects of core subjects of both profits tax and VAT applicable for an IT company.

This question was well answered with a few outstanding answers. Candidates demonstrated good appreciation of the practical aspects of the scenario described in the question, especially in calculation of limited medical insurance, limited business entertainment expenses, business training for permanent employees and including penalty recognized in non-sale income as well as correctly showing net off VAT relevant expenses.

Performance could have been improved had candidates been more attentive to the scenario and presented their answers well.

Common errors included:

Part a)

- Ignoring or failing to recognise the correct proportion of vatable sales in total sales and defining part of non-recoverable VAT that should be included in the cost.
- Ignoring the fact explicitly stating in the scenario that domestic sale of licenses is exempt of VAT
- Including unified social tax for insurance limits calculation
- Non-application or incorrect application of non-linear depreciation for fixed assets

Part b)

As a result of non-calculation of the relevant proportion of vatable sales in total sales, VAT subject to recovery was not correctly calculated by many candidates.

Common errors included:

- Non-application VAT recovery figure within the limit for profits tax purposes in respect of business entertainment expenses
- Application VAT on medical insurance
- Ignoring VAT exemption stated in the scenario on educational services

Despite these common errors, the overall performance to this question was well answered with significant marks gained by many candidates.

Question 2

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 Anna withheld at source:

- Including daughter insurance in Anna's taxable income
- Calculation and including of imputed interest on corporate mortgage loan into the taxable base for the year 2008
- Calculation of housing allowance in spite of a seller's status of close relative
- Included items that can not be withheld at source and should be normally included into the final settlement of Anna's personal income tax

(b) In the final settlement of Anna's personal income tax liability, common errors were as follows:

- Calculating of imputed interest income on deposit ignoring new rules
- Not recognizing 35% rate for imputed interest on bank loan

In point c) many candidates managed to calculate correctly Vladimir's gross salary accrued, correctly applied his both children allowance and daughter educational deduction.

In part d) there was a good prompt to the answer in the scenario requirement. Nevertheless many candidates wrote some general wording without answering specific requirement in this part of question 2 and showing different options available for reduction of Vladimir's tax payable. But there were several very good answers to this part of question 2.

This question was generally answered satisfactorily.

Question 3

Question 3 examined VAT issues.

Part (a) VAT related to both sale and donation of particular assets. In addition, deductibility for profits tax and personal income tax calculation were also tested in part a) of this question.

Part (a)(i) seemed to be the most difficult question for candidates since only few of them recognized correct amount of the input VAT subject to claw-back.

On the contrary, parts (a)(ii) and (iii) were well done by many candidates.

I would like to mention that candidates should be more attentive to the scenario and not forget to answer the easiest questions in part (a) regarding payments deadlines for both VAT and personal income tax.

The aim of part (b) for question 3 was to examine the rules for calculating output and input VAT taking into account rules for VAT on own construction. Candidates seemed to be well prepared for this part of this question.

Question 4

This question focused on the personal income tax related to an employee in a research company, who additionally makes a loss from the sales of shares.

Many candidates who attempted this question were successful with part (a) of the question with the following common mistake- imputed interest income on employer's loan was calculated for five days only.

In part (b) the outcome was the following:

- Interest on loan from employer was calculated well by many candidates, with the only mistake being in defining a correct number of days.
- Sales income from listed shares were calculated correctly based on actual price, other expenses incurred for the sale of shares were apportioned in a correct manner.

Question 5

Part a) of the question required candidates' to calculate deductible interest in respect to two different loans received. Successful candidates' were able to gain sufficient marks.

Part b) of this question was covered withholding tax on dividend payments for 3 different situations.

Most of candidates managed with this part of question more successfully comparing with the part (a). But the typical mistake was wrong % applicable to dividends from company D to company B

This question was answered satisfactorily amongst most candidates.