



Examiner's report

F6 Taxation (RUS)

December 2009

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. Many of 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 3 was the most frequently omitted. Question 3 was not a difficult question. Part a) of question 3 required technical knowledge with regard to different claw-back rules whereas part b) of question 3 required advice for both profits tax and value added tax (VAT) for standard situations with trading debts.

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 questions 1, 2 and 4. In respect to question 1, performance was very satisfactory.

Question 5 was quite a straightforward question, taking into account RUR devaluation effect by the end of the year, and should have been solved without any difficulty for those who were prepared for the exam. Many candidates attempted this question but used the technique of answering only the more easy parts of it.

The overall performance of candidates was neither poor, nor excellent, with a number of candidates 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 lack of number of questions attempted in the new convenient examination script layout with the special box at the top of the page.

Each question should be started on a new page with the indication of the 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 the 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, taking into account exchange rates impact, 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 calculation of non-linear depreciation, based on correct formulas, limited voluntary medical insurance, limited voluntary insurance against risk of accident, interest expenses at correct foreign exchange rate, and the VAT part of this question.

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)

- Incorrect cost of sales figure ignoring the description in the scenario of how gross margin was calculated
- Incorrect transportation costs figure as a result of incorrect cost of sales explained above
- Treating voluntary life insurance as a long term with application of 12% in stead of treating annual voluntary life insurance abroad as non-deductible item
- Ignoring the fact that 90% of educational expenses were VAT exempt
- forgetting the rules for deducting training expenses incurred for the trainees who concluded labour arrangement with the employers afterwards
- incorrect forex loss on loan by application wrong exchange rate
- forgetting to show non-sale income (both loan and interest) after forex loan write off
- showing bad debt written-off net of VAT
- incorrect amount of maximum tax losses to be utilised against available profits

Part b)

- Forgetting 75% on VAT on transportation expenses
- Calculation VAT on voluntary medical insurance
- Incorrect application of VAT rate to vatable part of educational expenses
- Application of incorrect proportion and VAT rate to vatable professional training expenses per each person

The overall performance to this question was good with the 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 for a couple of Alina and Andrey. The common mistakes were the following:

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

- Including medical insurance of both her sister and her son in Alina's taxable income
- Calculating and including imputed interest income on the corporate loan for the purchase of a share of the new apartment into Alina's 2010 income
- Including part of imputed interest income reimbursed to the bank by her employer into the taxable income of Alina

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

- non-application of educational deduction for her daughter for evening German language course
- calculation of imputed interest income on bank loan and adding it into the housing allowance instead of normal interest calculation

Social deductions for Alina were calculated in a good manner by most of candidates.

It should be noticed that most of the candidates recognised the correct answer for both parts a) and b) of Question 2.

c) final settlement of Andrey's personal income tax liability:

Many candidates correctly calculate Andrey's social deductions, charity deduction, children allowance and property deduction with respect to sales of his apartment after three years period.

However other errors included:

- Missing of 30% professional deduction for Andrey in gross remuneration calculation
- Educational deduction for his daughter increased threshold of 50,000 RR for both parents
- Lack of housing allowance calculation both for the year 2009 and to be carried forward.

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

Question Three

Question 3 examined VAT issues.

Part a) VAT was aimed to examine different VAT claw-back rules with respect to both real estate object and ordinary fixed asset when both fixed assets started being used in the VAT exempt activities of the company.

Many candidates omitted this question, but those who attempted it calculated the ratio of exempt sales in total sales for Planeta. Then the common mistake was that VAT subject to claw-back rules for Planeta was calculated exactly in the same manner as for Aquarium. However technical rules are different for real estate objects and candidates' calculation should be easier. Therefore there was a lack of technical knowledge of VAT claw-back rules for Planeta.

Part b) of the VAT question reviewed candidates' technical knowledge on both VAT and profits tax implications with respect to trading debts different scenarios for both trading company and its debtors. Unfortunately only a few candidates decided to attempt this part of question. In reality it was the more easy part of question 3.

Those who attempted it were more successful to recognise implications on profits tax in three different scenarios rather than on VAT liability. Several candidates did not understand what the waiver of Venice debt meant and proposed different assumptions.

Overall impression of question 3 - candidates should be more careful in reading different parts of question and at least should attempt the more easy parts to gain sufficient marks in total.

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 both employee and individual entrepreneur.

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

In respect to part a) i) many candidates applied correctly children allowance, used correct per diems for foreign business trip as well as for return to Moscow, and showed hotel and tax as non taxable expenses.

The common mistake in part a) i) was either forgetting application of 35% rate to imputed interest on loan received or incorrect imputed interest income calculation by forgetting changes in CBR rates.

Both parts a) ii) with Igor's confirmation of his housing expenses and part a) iii) with respect to UST were calculated correctly by many candidates.

Regarding part b) typical mistake were

- deduction of UST into calculation of taxable income in spite of 20% deduction used
- incorrect UST tax base after 20% business deduction
- incorrect UST rates not applicable to the individual entrepreneur (Vasily)

Overall part a) was calculated in a better manner than part b) of this question.

Question Five

Question 5 consisted of 3 parts. Part a) of the question required to analyse the most preferable currency of loan (EUR or RR) from tax prospective. This part of question was answered in a good manner by many candidates.

Part b) of question 5 required calculations to show why it was not preferable to borrow funds from company Luckwell.

First criterion -% of shareholding comparison was successfully done by many candidates. However the second criterion calculation and getting negative own capital confused many candidates. As a result, only a few candidates well prepared for the exam showed that interest on the controlled loan would be fully non-deductible and the total interest paid would be treated as a dividend.



Part c) of this question asked to state general rules for maximum deductible interest on loans in both EUR and RR. This part of question was answered very well since was the easiest part and did not require any calculations.

I would say that most of the candidates used the technique of answering completely parts a) and c) of question to gain easy few marks. However the performance of this question would have been better if candidates were more attentive to the scenario in part b).