

# Examiner's report

F6 Taxation (RUS)

December 2010



## 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 for 15 marks each).

Many candidates attempted all five questions. Even some of those who attempted less than five questions managed to answer them in a good manner to gain a pass mark. There was no evidence of poor time management. Among compulsory questions from 3 up to 5, part b) of Question 3 was the most frequently omitted. Part b) (i) required knowledge of VAT rules on factoring operations and on debt write-off. On the contrary, part b) (ii) was a simple question on VAT administration which should be familiar for candidates. Therefore, question 3 was not a difficult question and candidates who answered part b) ii) only along with other questions managed to earn easy marks.

Questions 1, 2, 4 and 5 were the most popular questions amongst candidates and these questions were generally answered very well. Outstanding answers were presented by many candidates for questions 1, 2 and 4. In respect to question 5, many candidates gained very good marks and showed good presentation of their work, especially for parts a) and b) of this question.

The overall performance of candidates was good with many examples of outstanding answers.

Workings were generally shown but sometimes it seemed to be difficult to follow them. Many candidates did not tick the question number box on the top of the answer booklet to indicate which question they were answering. Each question should be started on a new page with an indication of the question number the candidate is attempting. Furthermore candidates must give more thought to the layout and organisation of their answers.

Overall performance showed that 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 a pass mark.

## 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 and VAT applicable for a service company.

Overall the question was well answered with many outstanding answers. Candidates demonstrated a good appreciation of the practical aspects of the scenario described in the question, especially in calculation of direct non-linear depreciation, direct and indirect salary expenses, social insurance contributions, advertising expenses, business entertainment expenses, interest expense, and 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)

- Wrong rate applicable to remuneration under civil law agreement
- Deduction of voluntary medical insurance for relatives
- Forgetting one-off write-off for the software license which valued less than 20,000 RR
- Application of limitation to both advertising in press and exhibitions
- Non-including medical insurance costs into calculation for limited business entertainment expenses
- Including hotel expenses into deductible business entertainment costs

- Ignoring write-off for the part of the foreign loan

Part c)

- No VAT on debt written off
- Forgetting application of the relevant percentage to VAT invoices on advertising costs
- VAT application to limited business entertainment expenses

The overall performance on this question was good.

### 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 Sonya, her husband Pavel and her brother Dmitriy. Common mistakes included:

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

- Forgetting to include the 10,000 RR as a social deduction with respect to employer's withholding to non-state pension fund
- Including voluntary medical insurance for two sons as a taxable income
- Showing the maximum property allowance of 2,000,000 RR ignoring the fact that Sonya, Pavel., Dmitriy and Maria received equal ownership rights for their newly constructed house

(a) (ii) final settlement of Sonya's personal income tax liability:

- Non-applicability of social deduction to annual medical voluntary insurance for Sonya's sister

(a) (iii) final settlement of Pavel's personal income tax liability:

- Children allowance was not taking into account number of children
- Educational deduction was ignored for Pavel
- Imputed interest on mortgage bank loan was calculated by using incorrect CBR rates
- Applying wrong periods for imputed interest calculation
- Forgetting application of 2/3 to imputed interest calculation

(a)(iv) final settlement of Dmitriy's personal income tax liability:

- Application of professional deduction along with the real business expenses simultaneously

In part (b) personal income tax consequences for Pavel were correctly explained by several candidates. Others either ignored this part of the question or provided very general wording without relevant explanation.

The overall performance to this question was good, especially for part (a).

### Question Three

Question 3 examined VAT issues.

Part a) i) and ii) examined VAT issues for export both confirmed and non-confirmed within 180 days

It should be noted that part a) of Question 3 was a straightforward question. Many candidates prepared good answers to part a) (i) but errors included:

- using incorrect exchange rates or
- forgetting to include input VAT previously recovered as claw-back in Q4 and did not pick up full marks for part a) (ii). Or
- Forgetting to show refundable VAT in Q4 from output VAT in Q2

Part b) (i) was attempted by few candidates only. However this part required basic knowledge of VAT on factoring operations as well as VAT rules for debt write-off. There seemed to be a lack of technical knowledge to this part of question.

Part b) (ii) required stating VAT payment deadlines as well as the desk audit period and deadline for tax authorities' decision in respect of VAT recoverability. It should be noted that those candidates who ignored part b) (i) did not answer part (ii) either. However, more attentive candidates tried to obtain easy marks by answering this part of question in a correct way.

#### **Question Four**

Part (i) of this question focused on the personal income tax liability for Ivan Skuratov, including his business trip expenses, reviewing gift and support payment allowances. It should be pointed out that most candidates picked up most of the available marks for this part in respect of gross salary, children allowance and other items. A minority of candidates used the incorrect exchange rate for the business trip and excluded reimbursement for unused vacation from taxable income.

In respect of part (ii) candidates sometimes included the medical insurance for Ivan into the tax base for social insurance contributions by mistake or did not include reimbursement for unused vacation into the above tax base. In general this part was answered by candidates quite well.

The overall performance of this question was very good.

#### **Question Five**

Question 5 consisted of 3 parts. Part a) of the question required the social insurance contributions calculation for two different scenarios: remuneration under civil law agreement and remuneration under the license agreement. The question was attempted by many candidates, but the common mistakes were the following:

Part a) (i) there was a lack of comparison between the two options and no indication of which of them was the most tax effective for Vitaliy.

Part a) (ii) deducting expenses related to work from remuneration under the civil law agreement.

Part b) of question 5 required calculation of debt financing with application of thin capitalisation rules. Here it was pleasing that most of the answers were very good in terms of quality and presentation. The summary regarding the most tax efficient option was also provided.

Part c) of question 5 required tax withholding in respect of dividend payments to three different beneficiaries. Typical mistakes were the following:

- Forgetting rules for tax exemption applicable to dividends to ZAO Luchia
- Using incorrect methodology for calculation tax base for dividends to Ostrov

Overall the performance on this question was moderate with the very good answers to part b).