Examiner's report

F6 Taxation (POL)
December 2011

General Comments

Many candidates presented good answers in this exam, demonstrating that they had prepared well and practised their exam technique - and particularly their time management skills - using questions from past exam papers and other learning materials.

Specific Comments

Question One
In part (a) candidates were required to calculate corporate income tax for 2010. In part (b) candidates were required to state any three of the conditions required for an accounting provision for impaired receivables (bad debts) to be allowed as tax deductible cost for Polish corporate income tax. In part (c) candidates had to explain why a non-performing loan granted to another company would not be tax deductible. In part (d) candidates were required to state any two types of one-off fixed asset write-offs that would be allowed as tax deductible costs. Then in Part (e) candidates had to state any two specific methods of depreciation allowed under Polish CIT other than straight-line depreciation and one-off write-offs.

This question was generally well answered, especially parts (a), (b) and (d). In part (a), candidates who knew the proper treatment of dividends did particularly well. For part (b), candidates who read the question carefully correctly wrote about the conditions which allow companies to treat a bad debt provision as a tax deductible cost under the Polish CIT Act, rather than the conditions to create an accounting provision for bad debts which were not required. In part (c) a few candidates are to be congratulated for knowing that loans granted by businesses other than banks are not treated as sales/trade receivables thus, even if proved non-recoverable, cannot be treated as tax deductible costs. Most candidates presented comprehensive and accurate answers to part (d). In part (e) candidates properly mentioned the reducing balance method; other methods which scored marks were: individually established depreciation rates for second-hand assets, individually established amortisation rates for intangibles, specific depreciation for ships under construction and specific depreciation rules for assets obtained in privatisation process. (Candidates are reminded that the accelerated straight-line method is still the straight-line method).

Question Two
In part (a) candidates were required to calculate personal income tax advances withheld by the employer on Mr Roman's salary. In part (b) candidates were required to calculate Mr Roman's PIT for 2010 and to identify the amount due or refundable from the tax office and tax payable on any items taxed separately.

This question was answered well, although candidates found part (a) more difficult than part (b).

In part (a) it was key to think from the employer, Progress's, point of view, and to start answering the question by analysing in which month Mr Roman would exceed the second PIT threshold by summarising the taxable income he received from Progress. Such analysis showed that two calculations were needed: one for the period January to July 2010 at the 18% PIT rate, and a second for the period August to December 2010, at the 32% PIT rate. Candidates who tried to calculate advances for each month separately found this consumed too much time. Most candidates properly computed the additional income received by Mr Roman from Progress in addition to salary (reallocation allowance, award, excess per diem and training unrelated to duties).

Part (b) was generally answered well, with many candidates including taxable income from sources other than Progress, dealing correctly with the taxation with children mechanism, and reaching the conclusion that bank interest is taxed separately with the bank acting as remitter.

Question Three
In part (a) candidates were required to calculate VAT for June 2010. In part (b) candidates were required to calculate the input VAT adjustment to be made after the year end with respect to the June 2010 operations. Then in part (c) candidates had to calculate the VAT adjustment to be made after the sale of the server, assumed to happen in February 2011.

Candidates found this question challenging, especially parts (b) and (c). In part (a) a few candidates did well to show they knew the intra community purchase of goods and import of IT services should have been a base for input and output VAT at 22%. In the case of the import of IT services, the input VAT needed to be multiplied by the ratio of taxable to total sales from the previous year of 80%. Part (b) consisted of two adjustments. The first related to the purchase of services and the second to the purchase of fixed assets, both used in relation to mixed supplies. Some candidates correctly identified from the question text that a VAT adjustment was due following the change of the recovery ratio from 80% to 70%. It was pleasing to see that a few candidates even remembered that, in case of fixed assets, only one fifth of the total adjustment was applicable for 2010. Very few candidates properly calculated the adjustment for part (c) as four fifths of the difference between the ratios 80% (recovered) and 100% (allowed), calculated on the VAT on purchases of fixed assets related to mixed supplies.

Question Four
Candidates were required to calculate the tax and social security burden payable by Mr Planer and to advise him which of two options would be financially the most attractive. The first option assumed that he would run his business in the form of a limited liability company, and the second, that he would continue to operate as an individual business activity.

This question was well answered. For the first option, candidates properly recognised that Mr Planer had five different burdens: CIT, the social security contribution paid by himself and by the employer, PIT on his salary and PIT on the dividend from his own business. A few candidates are to be congratulated for noticing also that he had an interest saving of PLN 15,000 was not available in the second option.

In the second option, Mr Planer had only two burdens: PIT and social security. Most candidates properly calculated the annual social security contribution as 32.09% times 60% of his average salary.

Common errors in question 4 were
- the mismatching of the CIT rate (19%) and the PIT rate (18%),
- omitting the tax-free amount in PIT of PLN 556.02, and
- calculating the social security contribution for an employer running his own business in the first option using 18.48% rate instead of 18.38%.

Question Five
In part (a) candidates were required to calculate the amount of interest that may be recognised by Matejko Sp. z o.o. as tax deductible and to explain the basis of any exclusions. In part (b), candidates had to calculate the amount of withholding tax to be remitted by Matejko Sp. z o.o. on each of the interest payments made on 31 December 2010, explaining the basis of application of a given withholding tax rate or exemption. Then in part (c) candidates were required to explain the difference between a tax payer and a tax remitter.

Parts (a) and (c) were well answered, with candidates finding part (b) more difficult. In part (a) many candidates showed their understanding of thin capitalisation rules and the maximum allowed debt to equity ratio of 3:1, as well as the calculation of interest paid in 2010. Some candidates found the calculation of qualifying equity to assess the tax deductible interest from El Greco and Durer problematic. Qualifying equity in this question was PLN 2,000,000 (only registered share capital was allowed). In terms of loan from Zurbaran some candidates noticed that only arm's length interest was tax deductible. Interest from Kossak was fully tax deductible.

In part (b), withholding tax from El Greco was 5%, based on the Interest and Royalty Directive implemented into Polish law, as Matejko is subsidiary of El Greco. A few candidates are to be congratulated for computing withholding tax on Durer's interest right correctly and noticing that no withholding tax was needed on Kossak's interest as it was a transaction between Polish entities. In the case of Zurbaran, the double tax treaty allowed for 0% withholding tax, however, it applied only to arm's length interest. Interest not paid at arm's length was taxed at the 20% withholding tax rate.

Candidates did very well in part (c) demonstrating a good understanding of the difference between a tax payer and a tax remitter.