

Examiner's report

F6 Taxation (RUS)

December 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, some managed to answer them in a sufficient manner to gain a pass mark. There was no evidence of poor time management. During this session Question 3 was answered in a better manner however part (b) was frequently either omitted or partly answered.

Question 4 part (a) was answered by many candidates but unfortunately not all candidates really distinguished between two different situations: labour agreement and civil law agreement. Candidates should be more attentive to the scenario details and requirements.

Questions 1, 2, 3(a), 4 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 3, 4 and 5.

The overall performance of candidates was 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 and workings 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 allocation of direct expenses, limited voluntary medical insurance, business entertainment expenses, interest expense, impact of exchange rates and VAT applicable for a production 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 direct materials, direct wages and social insurance contributions, direct non-linear depreciation, limited business entertainment expenses, interest expense, the foreign exchange loss and utilisation of previous years losses.

However the performance might have been even better if candidates tried to be more attentive to the details in the scenario and did not make the following mistakes:

Part (a)

- Forgetting % allocation of direct expenses for the cost of produced goods
- Lack of patent amortisation and net of VAT application
- Including voluntary medical insurance for relatives into the deductible part of expenses
- Lack of NBV calculation as of 31 December 2011 to get correct amount of indirect depreciation for the year
- Including into deductible business entertainment expenses such as air tickets and hotel accommodation
- Forgetting limitation of interest in currency to CBR rate* 0.8
- Ignoring monthly interest calculation
- Not including penalties recognised into non-sale income

Part (b)

- Forgetting % application to professional training
- Including input VAT related to non-deductible part of business entertainment expenses

The overall performance to this question was very 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 Sergey and his wife Anna. Common mistakes included:

In part (a) personal income tax liability of Sergey withheld at source by Artisan:

- Non-including social deduction of 9,000 RR with respect to employer's withholding to LJI pension fund
- Calculation of bank interest for the incorrect extended period without taking into account interest reimbursement from employer
- Including employer's reimbursement of part of bank interest into taxable item
- Including property allowance of 2,000,000 RR into final settlement of part (b) instead of part (a)
- Not recognising that imputed interest income on the corporate loan for the construction of residential house would not be subject to tax

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

- Non-application of correct property deduction for sale of garage without taking into consideration ownership period
- Incorrect splitting of 50,000 RR education deduction between Sergey's daughter and son forgetting the maximum limitation of 50,000 RR per each child

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

- Not recognising that children allowance should be calculated for 3 months based on the fact that in April income exceeds the threshold of 280,000 RR
- Forgetting to use professional deduction instead of actual expenses of 150,000 RR
- Application of one 50,000 RR limit for educational deduction for both daughter and son
- Including donations in kind into charity 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 output VAT issues in the case of different situations with the outstanding debts.

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

- Forgetting that the loss in case of Birch did not have any impact on VAT since it had been accrued on the date of shipment.

Part (b)(i) examined understanding of VAT invoices to be issued by the agent but not reflected in agent's sales book.

Parts (b)(ii) and (iii) required calculation of both output and input VAT for principal and agent for different quarters. It should be pointed out that candidates were not attentive to scenario details and sometimes mixed requirements for those different parts into one answer. Many candidates preferred answering part (a) and picking up the easy marks. However part (b) in fact was not difficult but required a bit more attention to the details. Well prepared candidates gained good marks for part (b).

In summary, question 3 was answered based on residual principle by candidates, attempting all parts in a satisfactory manner.

Question Four

Part (a) of this question focused on the comparison of social insurance contributions applicable for Vladimir Suvorov in the case of two different situations: labour agreement and civil law agreement.

Many candidates correctly included salary, bonus, membership, material aid and respective deduction into the tax base for both situations.

However candidates did not always recognise that voluntary medical insurance for Vladimir as well as material aid on the birth of his daughter should be taxable in the case of civil law agreement. The contributions to the non-state pension fund limit of 12,000 were usually missed by the candidates for labour agreement. Reimbursement of business cell phone expenses were not shown as non-taxable items by many candidates.

Some candidates also forgot to apply the correct percentage for social insurance contributions tax base in case of civil law agreement.

Part (b) required candidates to compare and choose the most tax efficient option for PIT of Andrey Vinner. In general this part was answered much better than part (a). Well prepared candidates provided very good answers and explanations of their choice. One common mistake was to miss the calculation of social insurance contributions in case of deduction of actual expenses.

The overall performance of this question was good.

Question Five

Question 5 consisted of two parts.



Part (a) of the question required the calculation of dividend income and relevant tax withheld for Irina Lomova. This part was answered very well by most of candidates.

Part (b) focused on the calculation of deductible interest in two different situations: without the thin capitalisation rules (i) and with the thin capitalisation rules (ii).

It should be pointed out that many candidates recognised the reason for non-application of the thin capitalisation rules in part (i) of this question, and correctly calculated net assets and total deductible interest.

For part (ii) the situation was not as good as in part (i), however well prepared candidates showed good results, calculated the thin capitalisation ratio and the maximum deductible interest in a correct manner.

Overall the performance on this question was satisfactory.