



Examiner's report

F6 Taxation (CZE)

December 2011

General Comments

The examination consisted of five compulsory questions: question 1 for 30 marks, question 2 for 25 marks and three further questions for 15 marks each, with an approximate 4:1 split requirement for computation and narrative respectively.

Most candidates attempted all five questions. Some candidates seemed to avoid narrative parts of questions, in particular those in part (b) of question 1 and part (a) of question 3.

Excellent answers were produced by a number of candidates to questions 1 and 5. Very good answers were presented by a large number of candidates to questions 2 and 4.

Many candidates labelled, displayed and organised their answers very well. Workings were generally shown but were at times incomplete and difficult to follow. Candidates should focus on the organisation of their answers, showing transparently what steps they are taking. Clear workings are most important because purely numerical ('calculator') errors are disregarded in the marking process, and ACCA's own figure rule means that an incorrect figure carried into the next part of a question is treated as if it was correct. If it is unclear what and/or why a figure has been calculated this cannot happen. Finally, candidates need to use clear handwriting.

Specific Comments

Question One

The 30-mark question was on the preparation of a corporate income tax return of a limited liability company with a sole shareholder, withholding tax on profit distribution, related deadlines for filing the tax return and paying the tax, and the concept of the taxation of a permanent establishment of a non resident company.

Part (a) examined candidates' knowledge of how the tax base is derived from the accounting profit, and adjusted to comply with the relevant legislation. This part also tested candidates' ability to calculate tax deductible depreciation charges and the residual value of an asset that had been sold. A large number of candidates demonstrated a solid knowledge of the subjects tested. Most candidates correctly adjusted the tax base by adding back tax non deductible expenses and deducting the release of other reserves. The performance on the depreciation part was generally good. A common mistake was to omit the extraordinary scheme allowance available for assets acquired between 1 January 2009 and 30 June 2010.

Many candidates correctly stated the due date for the submission of the tax return and also indicated the time limit for the return of the tax overpaid.

In part (a)(iii) candidates were asked to demonstrate their ability to calculate the withholding tax on the profits distribution within the Czech Republic and to state how the tax is paid including relevant deadlines. The performance on this part was generally good, and a few candidates are to be congratulated for producing correct answers in respect of the relevant deadlines and the competent authority.

Part (b) tested candidates' knowledge of how the income earned by a non resident company is taxed in the Czech Republic in case there is and in case there is not a permanent establishment. Candidates found this part challenging, so some candidates did well to state the basic rules that apply.

Other common errors were:

- Including the municipality subsidy in accounting income
- Omission of the employer's social security and health care contributions on travel allowances above the statutory limit and membership fees
- Treating the costs of drinks as tax deductible

- Not decreasing the input price of the technological part by the subsidy from the municipality
- Not claiming the prepayments paid during 2011 back

Question Two

The question for 25 marks on individual income tax tested candidates' knowledge of rules on calculation of the tax base, and the tax liability and tax prepayments of individual taxpayers earning employment, business and other income. In addition to that it required candidates to calculate social and health care insurance contributions from business income, and to state the relevant deadlines.

In part (a) candidates needed to deal with the case where an individual taxpayer earned more than 50% of her overall income from her employment, the rest being split between business income and exempt other income. Part (b) combined overseas employment income and Czech Republic business income. In part (c) a taxpayer received employment income and significantly higher other income.

The performance on this question was generally good. Candidates appeared to find part (b) more difficult than parts (a) and (c). In part (a) some candidates confused due dates for payments of social security and health care insurance contributions, whilst others omitted to answer this part. Mistakes caused by not taking into account public holidays when stating due dates were disregarded.

In part (b) a number of candidates forgot to include deemed employers social security and health care insurance contributions in employment income. Candidates are reminded to make full use of the tax rates and allowances provided at the start of the paper, which included the social security and health care insurance contributions cap. A few candidates did exceptionally well to calculate the maximum credit capacity, and to demonstrate knowledge of the rule that employment income from abroad has no influence on the calculation of tax prepayments.

A large number of candidates presented excellent answers to part (c), remembering that other income is not taken into account when calculating tax prepayments, and to claim the spouse tax credit.

Question Three

The question of 15 marks on VAT tested candidates' knowledge and ability to apply the rules on registration for VAT and calculate VAT recoverable for the first taxable period of a newly registered corporate VAT payer. In part (b) candidates were required to demonstrate knowledge of what is the obligatory information on the VAT invoice.

Candidates found part (a) difficult, not being confident of the basic rules to apply. A small number of candidates answered the narrative parts very well and correctly applied the rule for goods purchased from another EU member state for more than CZK 326,000, and the vast majority of candidates correctly stated that Domestica reached the registration threshold in July 2011.

Common errors in calculation of VAT recoverable were:

- Not claiming input supplies for assets and goods acquired in the 12 months before registration
- No reverse charge for vacuum cleaner from France

In contrast with part (a), part (b) was very well answered and many candidates presented excellent answers. Of the information that must be shown on a VAT invoice, the price per unit excluding VAT and the tax identification number of the customer were most frequently omitted by candidates.

Question Four

Question 4 for 15 marks required the calculation of the corporate tax liability of a resident company, focusing on the treatment of dividend and interest income and capital gains received both from the Czech Republic and overseas. The foreign income was sourced in states with double tax treaties with the Czech Republic as well as non treaty states. In part (a) candidates had to decide whether the income was taxable or exempt and, if exempt,

explain why. In part (b) they were required to show how the respective income is included in/ excluded from the corporate tax base and calculate the tax due. Part (c) concerned the obligatory documentation to be submitted by the taxpayer when claiming the foreign tax credit.

In part (a) many candidates correctly identified the exempt items and several candidates provided full and correct justifications for them. Almost all candidates were able to identify participation exemption situations within the Czech Republic and EU, and some also proved their knowledge of the rules for participation exemption as regards the income from third states.

Candidates found part (b) more challenging, some omitting tax non deductible expenses related to exempt income or forgetting to calculate the tax on taxable dividends on a separate tax base. Well prepared candidates made the correct claims for double taxation relief, remembered that the relief for corporate tax paid abroad is available only in the case of income with source in a state with a double tax treaty with the Czech Republic, and claimed no credit for tax withheld in Mexico against the worldwide tax liability because the underlying income was exempt.

A few candidates gave good answers to part (c); most knew that the taxpayer is obliged to prove that the tax was paid, and some did exceptionally well to state that the certificate should be issued by the competent authority of Mexico.

Question Five

The final 15-mark question examined the taxation of employment income received by an individual non resident taxpayer claiming tax deductions and credits in the Czech Republic. The income comprised salary as well as various benefits in kind. Candidates needed to apply rules on the maximum assessment base for social security and health care insurance contributions paid by employer.

This was the best answered question in the paper. Many candidates presented excellent answers, noticing that they must work out the ratio of Anja's income from the Czech Republic to her worldwide income to claim partial tax credits, because Anja was not a Czech tax resident, and making accurate computations of the income from the apartment and from the car provided by her employer.

Other common mistakes:

- Not applying the cap for employers social security and health care insurance contributions
- Treating medical services as taxable income
- Incorrect calculation of gift allowance
- Not claiming the mortgage deduction