

# Examiner's report

## F6 Taxation (CZE)

December 2015

### General Comments

There were two sections to the examination paper and all of the questions were compulsory. Section A consisted of 15 multiple choice questions (two marks each) which covered a broad range of syllabus topics. Section B had four questions worth 10 marks each and two longer questions worth 15 marks, each testing the candidates' understanding and application of Czech taxation system in more depth. This is the first examiner's report since the introduction of the new exam format and question types. The following paragraphs report on each section and focus on some of the key learning points.

### Specific Comments

#### Section A

It was very pleasing to see that almost all candidates attempted all of the questions. Candidates preparing for the next examination of F6 are advised to work through the specimen exam on the website and sample questions discussed here and to carefully review how each of the correct answers were derived. Section A questions aim to provide a broad coverage of the syllabus, and future candidates should aim to revise all areas of the F6 syllabus, rather than attempting to question spot. The following two questions are reviewed with the aim of giving future candidates an indication of the types of questions asked, guidance on dealing with exam questions and to provide a technical debrief on the topics covered by the specific questions selected.

### Sample Questions for Discussion

#### Example 1

In 2015, Veronika inherited a family house from her deceased father with an expert valuation of CZK 3,000,000. Also in 2015 she received monetary gifts of CZK 20,000 from her cousin and CZK 12,000 from a friend.

**What is the income tax payable by Veronika as a result of the above receipts?**

- A CZK 3,000
- B CZK 0
- C CZK 4,800
- D CZK 453,000

This question tested exemptions from taxation on gifts and inheritance. This is a new area of the Income Tax Act from 2014 when inheritance and gift tax were abolished. Income or property acquired through inheritance are generally exempt from income tax. Gifts from direct relatives are also exempt from income tax. Gifts from other persons are exempt if they do not exceed CZK 15,000 from any one donor.

The correct answer was therefore A. The inheritance of the family house is exempt and the gift from the friend is less than the limit of CZK 15,000 and thus is also exempt. The gift from the cousin is not exempt because a cousin does not fall under the definition of a direct relative, and the amount is greater than CZK 15,000. As the tax rate is 15% the computations of income tax is as follows:  
CZK 3,000 (20,000\*0.15)

#### Example 2

Kovomat, a.s. includes the provision of the following fringe benefits to its employees in its internal regulations:

- (1) Preventative medical check-ups
- (2) Mobile telephones, which can be used for both business and private purposes
- (3) Coffee, tea and lemonade available at the working place for all the employees
- (4) Contributions to the employees' pension and life insurance schemes of up to CZK 35,000 annually for each employee

**The cost of which of these employee benefits can Kovomat, a.s deduct for corporate income tax purposes?**

- A 1, 2, 3 and 4
- B 1, 2 and 4 only
- C 2 and 4 only
- D 1 and 3 only

This question tested the tax deductibility of fringe benefits provided to employees for corporate tax purposes. Tax deductibility for employers is an important part of the syllabus of which candidates are advised to have a good technical knowledge.

The basic statement about Kovomat, a.s. was that the provision of fringe benefits was stated in their internal regulation. Statements 1, 2 and 4 were correct. Preventive medical check-ups, mobile phones (even if used also for private purpose), and contributions to the employees' pension and life insurance schemes (even if they are greater than the limit for exemption for the purposes of the employee) are tax deductible. Statement 3 was incorrect as the cost of coffee, tea and lemonade provided to employees is not tax deductible as they are not necessary for working conditions at the firm.

The correct answer was therefore B.

## **Section B**

### **Question One**

This 10-mark three-part question was on various aspects of tax administration.

This question was generally not well answered. A significant number of candidates did not address some parts of this question at all. Some candidates did not show satisfactory knowledge of the formula for computation of penalties and interest. As mentioned in previous examiner reports, tax administration and management appears to be an area of the syllabus which is neglected by candidates. Future candidates are advised to pay more attention to knowledge on topics related to tax management and administration. The sanction system in the tax administration has certain logical rules which, if learnt, can be applied to questions allowing candidates to perform satisfactorily score in questions on tax administration.

Part (a) for 4 marks required candidates to state the tax return filing dates for various types of taxes. It was based on a situation of a company, Victoria, s.r.o. This was a straightforward question but it required precise knowledge of the relevant tax administration dates. Many candidates were able to confidently state the required dates for value added tax (VAT) and corporate income tax. However, many candidates were less comfortable when dealing with the last part of the requirement regarding the filing of the reconciliation sent by an employer in both paper form and electronically.

Part (b) for 4 marks required candidates to judge whether taxpayers' filings to the tax authority were valid from the perspective of material format and communication channel. This is a practical area which has become increasingly important recently. We can see a gradual shift from the „classical“ tax administration procedures of



filing and delivery to electronic means. Therefore, knowledge of formats and channels are becoming as important as knowledge of time limits and persons competent to file tax documents.

The performance here was unsatisfactory. Many candidates failed to score marks because of a lack of knowledge in this area. Future candidates should focus on all three aspects of filing – channels, formats and persons.

Part (c) for 2 marks required candidates to calculate the sanctions for late payment of VAT. It was pleasing to see that many candidates are aware of the “generous” time limit (generally 5 days) for which the tax administrator does not compute interest.

### **Question Two**

This 10 mark question was based on Jakub’s, a director of a company (Rotar) who signed the declaration for personal tax credits with his employer. The question tested the monthly payroll calculation.

The question was answered well by most candidates, who were able to gain appropriate marks for including gross remuneration as an executive director and travel allowances above the statutory limit. As regards the fringe benefits, many candidates correctly calculated the relevant figure for the use of a business car for private purposes (1% of the acquisition price of the car), and the flat rent benefit (after subtracting CZK 3,500 – the amount that is exempt). Candidates also gained marks for demonstrating knowledge of the income which is exempt from tax i.e. wage compensation, and contribution to pension and life insurance (as this was within the annual limit).

Candidates should have recognised from the figures provided that the solidarity surcharge had to be calculated. Candidates gained marks also for the correct rounding up of the tax base to the nearest ‘000, and for the correct inclusion of the monthly personal tax allowances – the basic one and the one for children. .

As well as the satisfactory technical knowledge, it was pleasing to see that many candidates presented their answers well.

### **Question Three**

This 10-mark question was a two-part question on VAT testing both the tax administration aspects and knowledge of the calculation of the VAT liability. Performance on this question was satisfactory.

Part (a) for 2 marks required a decision as to when Jan, a sole entrepreneur starting his business, has to register for VAT purposes and from when he becomes a VAT payer. The majority of candidates were aware of the registration limit of CZK 1 mill. However, it was important in this question to decide whether rental income was also included in the computation of the limit.

Some candidates lacked knowledge of the time limits for registration and the date of becoming a VAT payer and some confused this with the date for filing a VAT return (the 25<sup>th</sup> day of the following month).

Part (b) for 8 marks was based on a company, Favorit, s.r.o., which was a VAT quarterly payer. Candidates were asked to prepare its VAT return for the first quarter of 2015. The structure of the question should have been familiar to candidates from previous sittings and performance on this question was satisfactory.

A common mistake made by candidates was a failure to apply the coefficient for the purchase of material used to maintain all three storage warehouses – as the rental of one of them was exempt from VAT. Some candidates did not include customs duty in the tax base of the imported spare parts from a USA supplier.

#### Question Four

This 10-mark question covered the topic of tax depreciation in the context of a company (Forma, s.r.o). There were details of six assets given and candidates were required to demonstrate knowledge of various aspects of tax depreciation in order to decide what, if any, adjustment should be made to the tax base when preparing the 2015 corporate income tax return.

Overall performance on this question was satisfactory as candidates were able to show a fairly robust knowledge of tax depreciation formulas and rules.

Many candidates were able to correctly identify that, in the case of printer – being a small asset - no adjustment was required. The business car tested candidates' knowledge of the linear method of computation and machine A tested candidates' knowledge of the accelerated method of depreciation. The software tested candidates on depreciation of intangible assets whilst the factory tested knowledge of the accelerated method and an asset with technical appreciation. Finally, machine B tested depreciation of an asset which was contributed as equity by a partner, where the successor should continue in the tax depreciation of the previous owner.

Future candidates should carefully read the question requirements prior to commencing their computations to ensure they pick up the correct method of depreciation required. Attention should also be paid to a situation involving new assets where the taxpayer can claim a 10 per cent increase of the input price.

#### Question Five

This 15-mark question was based on situation of Ludvik, an employee who during 2015 also received rental income and income from the sale of assets. His family situation was described in order that candidates could decide what personal discounts should be applied in his tax return. Details about Ludvik's wife, Ludmila, were also given. Ludmila started her own business in Spring 2015 and candidates were required to consider her social security and health care insurance contributions.

Performance on this question was satisfactory. Part (a) for 13 marks required candidates to prepare Ludvik's 2015 income tax return and calculate the tax payable or tax bonus receivable. Candidates demonstrated a good knowledge of setting partial tax bases for employment and rental income. Candidates were not as confident dealing with capital and other income. It was pleasing to see that the candidates managed to structure the whole income tax return correctly, correctly subtracting tax allowances from the tax base and tax credits from the tax liability. Where candidates performed less well tended to be in judging how the sale of shares should be taxed – it was important to consider whether the shares should be treated under the old rules (up to 2014) or under the current rules. The 6-month holding period was substituted for a 3-year holding period and CZK 100,000 annual threshold.

Part (b) for 2 marks required candidates to judge whether or not social security and health insurance premiums from business income should be paid by Ludmila and, if so, what amount. Ludmila was in a loss situation which made the requirement more challenging. However, as it was her main business activity she was obliged to pay premiums. Performance on this question was satisfactory. However, a common error made by candidates was to compute the premiums for the whole year, not for ten month (Ludmila started her business in March).

#### Question Six

This 15-mark question was based on a company (NABYTEK, a.s). It tested candidates' knowledge of the corporate income tax rules regarding determination of the income tax base. Candidates were given the accounting profit and required to calculate the company's corporate income tax liability and advanced corporate income tax payments. The question listed certain pieces of information that tested candidates' knowledge of the required adjustments in the company tax return.



Part (a) for 13 marks required candidates to calculate NABYTEK's corporate income tax liability commencing from the accounting profit set in the question. It tested candidates' ability to prepare the corporate income tax return, performing adjustments to the accounting profit to comply with the relevant tax legislation and using tax allowances as a result of previous years' tax losses or gifts provided to charities. Performance on this question was satisfactory.

Many candidates were able to determine what income was not taxable –eg. inherited income, proceeds from sale of shares of a subsidiary. As regards the adjustments to receivables, many candidates were aware of the difference between rules used until the end of 2013 and the rules applied from 2014. Due to the new structure of the question, the tax provisions were booked as a tax deductible cost and there were no further tax adjustments (deductions) needed as the question stated that the accounting profit was after deduction of all costs.

The majority of candidates showed a good knowledge of the various structural elements of the tax base and the structure of calculating the tax liability.

Where candidates did not tend to perform as well was failing to add back the acquisition price of the shares sold (as they were exempt), or making mistakes in the deductibility of fringe benefits. Future candidates should ensure that they clearly shown any items where no adjustments are necessary.

Part (b) for 2 marks required candidates to calculate the 2016 advanced tax payments for NABYTEK and state the due dates. This was quite straightforward requirement and performance on this question was good. Many candidates were able to correctly compute the advance tax payments and state the due dates.