Examiner’s report
F6 Taxation (POL)
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 4 questions worth 10 marks each and two longer questions worth 15 marks, each testing the candidates’ understanding and application of Polish taxation in more depth.

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. 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
A Polish company based in Warsaw sells sunglasses to customers in Berlin. Domestic sales of sunglasses are standard rated supply for value added tax (VAT) in both Poland and Germany.

Which of the following correctly describes the value added tax (VAT) treatment of these sales?

A The standard Polish VAT rate should be applied
B The standard German VAT rate should be applied
C An effective zero VAT rate should be applied
D All of the above could be correct depending on the circumstances of the sale

This question tested basic knowledge of intra-EU taxation (i.e. that particular item may be taxed under specific conditions in either of the countries). Knowledge of the taxation rules in that other country was not required to answer this question.

All the above mentioned VAT rates could apply in the above scenario depending on: the type of sales (Business to Business (B2B) or Business to Consumer (B2C) depending on turnover and/or registration); whether in case of a B2B sale the company is VAT registered in the other EU state; the turnover of the supplier in Poland and in the other EU state; and whether any relevant elections have been made.

Even if some candidates were unsure of statement B, they should have quickly identified that both statements A and C could be correct (depending on whether the sale was B2B or B2C). Once this was identified, the only possible correct answer was option D – all of the above could be correct depending on the circumstances of the sale. This is because all of the other answer options only indicated one correct statement

Example 2
On 10 February 2013, Yolo Sp. z o.o. (Yolo) drew a loan denominated in Euros on which interest was compounded monthly (at the last day of each month). On 20 June 2014, Yolo repaid both the principal amount

of the loan together with all the outstanding interest, also in Euros. This was the only loan Yolo had during the years 2013 and 2014.

Yolo's financial statements show the following profit or loss account entries in the respect of the loan:

Year ended 31 December	2013	2014
	PLN	PLN
Interest	70,000 debit	45,000 debit
Forex	35,000 credit	65,000 debit

What is the total amount of the tax deductible costs in relation to the loan in 2014?

A PLN 75,000
B PLN 110,000
C PLN 145,000
D PLN 215,000

This question tested candidates' understanding of the tax treatment of interest and foreign exchange rate differences related to the loan. From the profit and loss account perspective, a debit entry means that the company recognizes an expense for a period and a credit entry means income.

Interest accrued is not a tax deductible cost. However, by tax law, if the interest is accrued and compounded (i.e. added to the principal for the purposes of the interest calculation or, in other words, capitalised as part of the principal) it is accounted for as a tax deductible cost. The question clearly stated that the interest is "compounded monthly". Thus, the interest compounded in 2013 was a tax allowable cost in 2013. The interest cost recognized in 2014, forex result recognized in 2013 and forex cost from 2014 gave together a tax deductible cost for 2014 of PLN 75,000 (being PLN 45,000 + PLN 65,000 – PLN 35,000). Thus answer A was the correct option.

Section B

Question One

This 10-mark question covered the topics of establishing the tax value of a fixed asset (i.e. a car) and calculating its tax depreciation for the first year of usage from a personal income tax perspective (PIT).

Part (a) for 8 marks required candidates to calculate the total initial value (according to the personal income tax regulations) of the new car, the total amount of expenses related to the purchase which will be recognized directly as tax deductible for 2014 and the non-deductible costs (if any) to be reported in the individual's (Chwalimir) PIT calculation.

Most candidates performed adequately on this question. Common items which were not included in the car's initial value were the fancy xenon lights and tinted windows and the LPG installation. The majority of candidates correctly indicated that 60% of the insurance relating to the auto-casco should be classified as a tax deductible cost but only a few noticed that 50% of the VAT calculated on the initial car value at 23% rate is tax recoverable while the remaining 50% should be added to the initial value of the car.

Part (b) for 2 marks required candidates to calculate the 2014 depreciation for the car. This part of the question was well answered by the majority of candidates.

Question Two

This 10 mark question required an understanding of the basic tax concepts related to the tax treatment of a loan, interest and a loan arrangement fee.

Part (a) for 6 marks required candidates to set out the key differences in the tax treatment of the loan to Zalezna Sp. z o.o. under parent company financing and bank financing. This part of the question was not well answered by the majority of candidates. Most candidates identified correctly two key differences: thin capitalisation and withholding tax. However, answers were often incomplete. For example, some candidates described thin capitalisation only in relation to the parent company financing but did not comment on the bank financing – ie. They failed to state that there is no thin capitalisation rule for third party financing. This may have been due to a desire not to 'state the obvious'. The majority of candidates also failed to notice that there was a third key difference which related to the transfer pricing rules.

Part (b) (i) for 2 marks required candidates to explain the effect of the issue of one-off versus over time recognition of the cost of the arrangement fee. This part of the question was answered adequately by the majority of candidates.

Part (b) (ii) for 2 marks required candidates to state, giving reasons and supporting calculations of the value of the tax asset at stake, which of the two treatments will be more beneficial to the company.

This part of the question was not well answered as many candidates did not comment on the arrangement fee specifically but instead made general comments on parent company financing vs. bank financing.

Question Three

This 10-mark question covered the topic of personal income tax (PIT). It required the candidates to calculate the year end personal income tax payable by Wolfram for 2014. This question was very well answered by the majority of candidates.

Question Four

This 10-mark question required a calculation of the Polish VAT due by ITMistrz.pl Sp. z o.o. for the month of April 2014. This question was fairly well answered.

Some candidates did not calculate properly output VAT on the promotional computer sales (23% VAT rate multiplied by the promotional sales value of 10 PLN for each of the 10 computers) and computers given for free (23% VAT rate multiplied by their purchase value). The reverse charge on the import of computers from China was sometimes forgotten. 23% VAT on 92% of the unpaid invoices for the server maintenance should have been applied to correct the input VAT for April 2014.

Question Five

This 15-mark question was based on Alfred, an IT specialist, and tested candidates' knowledge of tax planning while choosing between employment and being an independent service provider.

Part (a) for 3 marks required candidates to explain the VAT implications for Alfred of his work for Młotex Sp z o.o. under each of the above two options. This part of the question was moderately well answered.

Most candidates correctly identified that a salary from employment is not subject to VAT but IT services are VATable at the 23% rate. However only a few candidates noticed that, as the supplies made by Młotex itself are also VATable, Młotex will have a right to deduct any input VAT charged by Alfred. Therefore, the VAT amount charged will not decrease the net amount of fee available for payment to Alfred.

Part (b) (i) for 5 marks required candidates to calculate the annual cash amount which will be retained by Alfred if he chooses to be employed by Młotex. This part of the question was rather well answered. However, the majority of candidates did not notice that the salary budget prepared by Młotex (PLN 120,000 per annum) needed to also cover the employer social security component calculated at the 20.74% rate.

Part (b) (ii) for 7 marks required candidates to calculate the annual cash amount which will be retained by Alfred if he chooses to be an independent service provider invoicing Młotex for his services. This part of the question was moderately well answered. Many candidates did not apply the 19% PIT rate as more beneficial for Alfred in this case to scale taxation. Some candidates applied flat **revenue** taxation which is different to the flat **income** taxation applicable to this part of the question.

Question Six

This 15-mark question was based on Lutownica Sp. z o.o case and required candidates to calculate the Polish corporate income tax (CIT) payable or refundable after the filing of Lutownica's CIT return for 2014.

This question was moderately well answered. The main issues related to the treatment of the foreign branches as the majority of candidates treated the Italian branch and the German branch equally from a CIT perspective whereas the Italian branch should have been dealt with under the credit method and the German branch under the exemption method.