

Examiner's report

F6 Taxation (RUS)

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 six questions, four of them worth 10 marks each and two longer questions worth 15 marks, each testing the various topics of corporate profits tax, social insurance contributions, value added tax (VAT) and personal income tax in more depth. This is the second 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 should be pointed out that vast majority of candidates attempted all of the questions. Candidates preparing for the next examination of F6 (RUS) are advised to work through the specimen exam 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 (RUS) 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

Company X received an authorised decision dated 16 November 2015 for the coming field social insurance contributions (SIC) tax audit starting on 19 November 2015, Company X has five regional subdivisions without individual balances.

Which of the following statements in respect of Company X's social insurance contributions (SIC) tax audit is/are correct?

- (1) The field audit may cover the period 2013 to 2015
- (2) The field audit can last up to 19 February 2016 without any special reasons
- (3) None of the Company X's regional only subdivisions will be subject to a separate field audit

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

This question reviewed candidates' ability to understand the practical consequences of the social insurance contributions (SIC) tax audit based on the scenario details given. The correct answer is D. However, a large number of candidates wrongly chose either answer C or A.

In order to arrive at this correct answer, candidates had to be very attentive to the scenario given. They should have firstly identified that the field audit could not include the current year in its scope. Secondly, that the field tax audit can last up to two months based on general rules without special grounds for continuation. And thirdly, the fact that the five regional subdivisions do not have individual balances should have lead candidates to choose the correct answer D.

Example 2

On 7 July 2015 after an internal tax review, OOO Dilema decided to submit an adjusted 2014 annual profits tax return showing additional tax due of 250,000 RR. This amount (together with the late interest charges) was paid in full on 7 July 2015.

What is the total amount of late interest charges and penalties (if any) payable by OOO Dilema in respect of the amended 2014 annual profits tax return?

- A 8,033 RR
- B 5,833 RR
- C 58,033 RR
- D 55,833 RR

This question tested candidates' ability to calculate only late interest charges without penalties as a result of the adjusted tax return and additional profits tax due to the budget provided in the scenario data.

The correct answer is A. However, the majority of candidates opted for answer B which indicated a lack of technical knowledge in the case of the change in the CBR rate being tested in the question. The logic of the correct answer, as well as incorrect ones, is explained below.

Since OOO Dilema discovered the underpayment itself and paid the outstanding amount before filing the amended tax return, no penalties are payable. Late interest charges should be payable effective from 29 March 2015 up to 6 July 2015, taking into account the relevant change in the CBR rate:

$$\begin{array}{l}
 \text{29 March – 30 April 2015} \\
 250,000 \times (31 - 28 + 30) \times \frac{1}{300} \times 15\% \quad 4,125 \\
 \\
 \text{1 May 2015 – 6 July 2015} \\
 250,000 \times (31 + 30 + 6) \times \frac{1}{300} \times 7\% \quad \underline{3,908} \\
 \qquad \qquad \qquad \underline{8,033}
 \end{array}$$

Answer B applies the same CBR rate (7%) to the whole period ignoring the effect of change.

Answer C calculates the late interest charges correctly but incorrectly adds a penalty at 20% to get the total amount.

Answer D consists of a 20% penalty and the incorrect late interest charges as calculated for answer B.

Section B

Question One

Part (a): this 7-mark question covered the calculation of the dividend tax base and withholding tax on dividend payable by the company, Goodwin, to each of its shareholders based on a given scenario.

Candidates' performance was satisfactory on this part of the question. Many candidates were able to correctly identify both the amount of dividend and relevant tax to be withheld on the payments to the shareholders, Berkshir and Galogen..

However, the criteria under which 0% tax rate for dividends is relevant to payment to Almaz were not recognised by all candidates and there were those who spent time calculating the dividend and withholding tax rather than concentrating on application of the special rules..

Part (b) for 3 marks required candidates to identify the foreign exchange loss on both the loan and the interest. It should be pointed out that many candidates were able to calculate correctly the foreign exchange loss on the loan amount.

However typical mistakes made included the following:

- incorrect calculation of forex loss on the interest due to application of wrong exchange rates and the incorrect number of days
- missing the fact that the interest for December was not paid at 31 December 2015
- Identifying a forex gain instead of a loss

Question Two

This 10 mark question tested candidates' knowledge of social insurance contributions (SIC) applicable to different types of agreements and was split into two parts: part a) and b). Performance on this question was satisfactory, especially on part (b). The typical mistakes encountered in part (a) were as follows.

- Not solving the ratio with the correct gross remuneration
- Incorrect SIC rates application for an author's agreement

Part (b) was answered in satisfactory manner, especially by well-prepared candidates.

The most common mistake in part (b) was including the sick leave pay in the tax base in the SIC calculation. In addition, the deduction of 4,000 RR in respect of the material aid was missed by a significant number of candidates.

Question Three

This 10-mark question dealt with personal income tax.

Part (a) for 3 marks required a calculation of personal income tax taking into account the specific rules related to the definition of the tax base when unquoted shares are received from an employer. This subpart was not answered well by the majority of candidates and the following mistake was commonly encountered:

- Incorrect calculation of imputed income for unquoted shares without taking into account the reference price discounted by 20% and the actual acquisition price.

Part (b) (i) required the calculation of the final personal income tax liability for the year. Whilst there were some satisfactory answers by well-prepared candidates, many candidates either skipped this subpart or provided a very general calculation of personal income tax withholding. The typical mistakes made included the following:

- 35% tax rate applied to the tax base on the sales of shares transaction
- Incorrectly use of the market value per share instead of the acquisition costs (many candidates completely ignored acquisition costs)
- Ignoring the fact that no imputed income should be arisen on shares received from his wife

Part (b) (ii) was a predominantly narrative part which required a bit of calculation in support of the explanation. Answers to this subpart were not satisfactory in terms of quality with many candidates simply ignoring this subpart. For those candidates who tried to attempt this subpart, the most commonly made mistakes were the following:

- Incorrect computation of imputed income subject to personal income tax
- When calculating the gain from the sales of shares, forgetting to deduct the imputed income and personal income tax withheld at the time of the share acquisition
- Incorrect identification of the types of non-close relatives through confusion with the ordinary definition of close relatives.

Question Four

This 10-mark question covered the topic of value added tax (VAT) in two different scenarios provided.

Part (a) of this question required a calculation of separate VAT accounting: the input VAT which is recoverable and the input VAT that should be included into costs. Although this should not have been a difficult question by nature, only well-prepared candidates were able to recognise the appropriate amount of input VAT in Q4 correctly. Many candidates just skipped this part of question 4.

The typical mistakes encountered included the following:

- Expenses allocated to exempt supplies were not taken into account when looking at the general expenses to be apportioned
- The ratio of expenses related to exempt sales/total expenses was not calculated correctly or, in some cases, was completely ignored
- Failure to apply the 18/118 fraction when calculating the portion of VAT recoverable

Part (b) of this question required a calculation of VAT in respect of the original and amended VAT invoices issued due to a selling price amendment. This part was often omitted by candidates and those candidates who did attempt an answer often failed to provide a satisfactory and relevant answer. This appeared to be due to a lack of the necessary technical knowledge in terms of the correct exchange rate to apply and a failure to read the scenario and questions with sufficient attention to detail.

Part (c) of this question was straightforward and required an explanation of whether a branch or independent subdivision could be treated as a separate VAT taxpayer. Mostly candidates did not attempt this subpart and many of those who did were not able to provide a clear explanation. This shows a lack of understanding of the VAT payment principle.

Question Five

This 15-mark question tested the areas of taxable and deductible items for personal income tax, including application of different deductions and items subject to different personal income tax rates. This question was answered well by candidates in most cases.

The most common mistakes encountered were as follows:

In part (a)

- Forgetting to consider the number of children when calculating the children allowance
- Not applying the 35% tax rate to the imputed interest income on the mortgage loan received
- Calculating the imputed interest income without considering the relevant CBR rate for the periods 1 May-30 September and 1 October-31 December respectively

In part (b)

- The interest on the mortgage loan was frequently incorrectly calculated for quarter 4

Question Six

This 15-mark question tested candidates' ability to cope with the various core aspects of corporate profits tax, including the thin capitalisation rules in part (a) and different aspects for a company engaged in rendering services, taking into account the work in progress adjustment for direct expenses such as direct materials, salaries and non-linear depreciation in part (b) of this question.

Overall, candidates' performance was satisfactory particularly in part (a) of this question. The only significant mistake in part (a) was frequent application of an incorrect exchange rate to the loan amount as of 31 December 2015.

However performance could have been improved if candidates were more attentive to the details in the scenario and did not make the following mistakes in part (b):

- Including prepayments into the taxable base for corporate profits tax
- Applying a 6% rate to the voluntary personal insurance against accidents at work
- Applying the incorrect number of months when calculating the non-linear depreciation based on the relevant formula
- Either failing to calculate the work-in progress adjustment at all or calculating the completeness ratio without adjustment for VAT
- Incorrectly calculating a forex gain instead of a forex loss
- Taking into account the wrong exchange rate or incorrect number of days for the interest calculation
- Calculating social insurance contributions notwithstanding the note to the question (note 2) instructing candidates to ignore these.