

# Examiner's report

## F6 (RUS) Taxation

December 2016

### 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. 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 the majority of candidates attempted all of the questions however the performance could be better if candidates tried to be more attentive in reading and understanding the requirements. 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 (Question 4)**

In March 2016, Olesiya submitted an application to her employer for a social deduction for her medical treatment which had cost 120,000 RR, together with the notification from the tax inspection confirming her entitlement to the deduction.

Olesiya's monthly gross salary, starting from the month of January 2016, is 55,000 RR and she is not entitled to a children deduction.

**What is the amount of the social deduction to be used when calculating Olesiya's personal income tax withholding for the month in March 2016?**

**A 7,150 RR**

**B 0 RR**

**C 55,000 RR**

**D 120,000 RR**

This question reviewed candidates' ability to understand the rules for the application of social deduction by the employer. The correct answer is C since Olesiya's salary is 55,000 RR in March and her employer cannot deduct more than the March salary.

The most popular answer was D. So, my advice would be careful reading before giving the final answer. It seemed to be the fact that the candidates have noticed the maximum threshold of social deduction and have chosen this answer without analysing the current scenario and the requirement.

Less preferable answer was B, which also shows lack of attentiveness to the scenario data.

The least preferable answer chosen by candidates was answer A, which is in fact  $55,000 \times 13\% = 7,150$  proving the fact that some of the candidates do not know how to apply social deduction.

### Example 2 (Question 9)

Maxim worked for OOO Dream for the period January to October 2016, for a monthly gross salary of 250,700 RR (average monthly salary is equal to 250,700 RR). On 31 October the owner of OOO Dream liquidated this legal entity. In November 2016 Maxim received compensation of 1,504,200 RR related to his dismissal, and compensation of 601,000 RR for his unused vacation.

**What is the amount of Maxim's taxable base for social insurance contributions for the year 2016?**

- A 3,259,100 RR
- B 3,860,100 RR
- C 4,612,200 RR
- D 4,011,200 RR

Correct answer is B where the candidates should take into account that compensation for the unused vacation should be added to the taxable base, whereas three average monthly salaries should be exempted from taxable base as follows:

$$10 \times 250,700 + (1,504,200 - 250,700 \times 3) + 601,000 = 3,860,100.$$

The most preferable answer was C:  $10 \times 250,700 + 1,504,200 + 601,000 = 4,612,200$ . It seemed to be the fact that candidates forgot excluding three average monthly salaries from the taxable base.

Answer D just added up the total compensation related to dismissal to 10 months salary:  $10 \times 250,700 + 1,504,200 = 4,011,200$ .

Answer A excluded compensation for the unused vacation from the taxable base,  $10 \times 250,700 + (1,504,200 - 250,700 \times 3) = 3,259,100$

Therefore, the main outcome of the answers received is the following: candidates should read the question carefully in order not to miss marks which are comfortably achievable.

## Section B

### Question One

This 10-mark question tested candidates' knowledge of thin capitalisation rules application, exempt items from profits tax, deductibility of interest for profits tax purposes, reclassification interest into dividends, withholding tax rate for dividends.

Part (a) (i) for 1 mark required candidates to analyse and state whether the contribution will be taxable or exempt. Most candidates managed to mention ownership more than 50%, but not all of them stated the right outcome out of this ownership.

Part (a) (ii) required candidates to calculate both the interest deductible for profits tax purposes and the interest portion to be reclassified into dividends under the given scenario. In order to do the above, candidates should be aware how to calculate the lower limit for interest rate, total interest, and net assets. It should be pointed out that the vast majority of candidates performed both net assets and capitalisation ratio calculation very good.

In terms of the total interest the candidates should be more attentive to the requirements part of the question. Some of them calculated the total interest up to the year-end whereas in the question it was required to calculate interest for Q3 2016. The other typical mistake was incorrect rate application to withholding tax on dividends – 15% or 35%.

Regarding part (a) (iii) the candidates defined correctly that a loan from a foreign shareholder in the given circumstances should be treated as a controlled one. In addition, I was surprised that many candidates started a calculation of capitalisation ratio, total interest in spite of the fact that it was not required at all and scored no marks. So, I'd recommend candidates being more attentive to the question requirements to be more efficient during the exam.

Part (b) of this question tested candidates' knowledge for a 0% dividend tax rate application to the dividends paid to a Russian resident shareholder. Most of the candidates provided correct answers in terms of criteria to be applied. However some of candidates skipped this part without gaining marks.

## Question 2

This 10-mark question reviewed candidates' knowledge in social insurance contributions area in respect to a person working under a labour agreement as well as to a person under a license agreement.

In general part (a) has been answered quite well by majority of candidates. However some candidates could not apply the 12,000 roubles exemption to the additional contributions for the accumulated pension. In addition, semi-annual medical insurance for Victoria has been excluded from the taxable base without explanation.

The most common mistake in part (b) was application of the 30% rate to the taxable base for SIC for both subparts of this question.

## Question 3

This 10-mark question reviewed the topics of personal income tax, including calculating relevant income and expenses for each available option in part (a) and calculation of personal income tax liability from the insurance claim in part (b).

The candidates performed very well in part (a) of this question, clearly identifying the interest expenses for the bank loan, income subject to exemption and imputed income on the corporate loan. The common mistake in this part was incorrect application of 13% to the imputed income on corporate loan.

In part (b) the performance was a mixed one. In the subpart (i) most of the candidates managed to identify deductible items to approach to a correct tax base. The only mistake was taking into account expenses related to the investigation. However in subpart (ii) many candidates failed to answer properly that the insurance company should be acting as a tax agent and could not recognise the deadline for PIT transfer to the budget.

#### Question 4

This 10-mark question covered the topics related to VAT for construction works using its own workforce and free of charge transfer of coffee machines to the employees.

Many candidates shifted this question to a last one for the answer in their scripts and seemed to be not very attentive when putting in the answers. Part (a) has been answered in a good manner only by well-prepared candidates, subpart (ii) has been skipped by many candidates. The typical mistakes were the following:

- incorrect application of 18/118 to the taxable base for defining output VAT on own construction
- forget applying recovery for the VAT on own construction
- input VAT on the materials subject to transfer under tolling agreement

Part (b) has been skipped by many candidates. For those who performed this part, the below mistakes were typical ones:

- incorrect VAT recognition date for the transfer of coffee machines to employees
- lack of input VAT on acquisition
- lack of invoice for the free of charge transfer

#### Question 5

This 15-mark question tested the different areas of personal income tax, including application of relevant deductions, exemptions, including housing allowance and mortgage interest in a given scenario.

Overall the performance was quite good for this question with several outstanding answers.

Typical mistakes were the following in part (a):

- Deducting annual voluntary insurance for children
- Lack of educational deduction at employer's level
- Applying housing allowance in spite of the direct clarification in the scenario that Valeriya did not manage to submit a notification from tax authorities to her employer before the year-end.
- Incorrect calculation of imputed interest income on mortgage loan

Part (b) seems to be performed well by prepared candidates. The common mistakes were the following:

- non-taxable sale of inherited plot of land
- non-application of ownership % to the mortgage loan interest
- including mortgage loan interest paid as an answer to part (a)

Besides, sometimes part (a) and (b) have been mixed by the candidates in one single calculation and it was quite difficult for the markers to split and allocate the marks respectively. I'd recommend candidates adhering in their answers to question requirements and indicating which particular part of the question they were answering to be more effective in terms of scoring marks.

Part (c) has been answered very well for those who attempted this part of question. Unfortunately some of the candidates preferred skipping this part without gaining marks.

#### Question 6

This 15-mark question reviewed the corporate profits tax topics for the trading company, including allocation of direct expenses, calculation of depreciation based on non-linear method, amortisation of intangible asset,

advertising expenses, limited expenses such as reimbursement of interest on mortgage loan, utilisation of tax losses and amount of tax losses to be carried forward.

If the candidates were more attentive to the scenario details they can avoid the below mistakes:

- forgetting of net-off expenses from VAT when calculating cost of goods sold
- including wages and salaries, depreciation, insurance into direct expenses in spite of the fact that the company is a trading company
- incorrect months in the formula for the non-linear depreciation
- incorrect months for the amortisation of exclusive rights
- calculating social insurance contributions in spite of the special note in the requirements to ignore social insurance contributions.

Overall it should be pointed out that the vast majority of candidates provided good answers sufficient to gain relevant marks for this question.