

Examiner's report

F6 (RUS) Taxation

December 2017

General Comments

There were two sections in 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, testing the candidates' understanding and application of corporate profits tax and personal income tax in more depth. The following paragraphs report on each section and focus on some of the key learning points.

The vast majority of candidates attempted all five questions, and there was little evidence of time pressure. Where questions were left unanswered by the candidates, this appeared to be due to a lack of knowledge or poor exam technique, as opposed to time pressure.

A small minority of candidates answered VAT question 4 completely whereas the majority of answers were often incomplete or appeared rushed especially in respect of part (a).

Candidates performed particularly well on questions 2 (a) and (b), question 5 (a) and question 6. The questions candidates found most challenging were questions 1, 3 and 4 respectively. This appears to be mainly due to candidates' lack of technical knowledge in certain areas and also due to not reading question requirements carefully.

A number of common issues arose in candidates' answers:

- Failing to read the question and notes to the question requirement clearly and therefore providing irrelevant answers which scored few if any marks.
- Poor time management. Some candidates wrote far too much for some questions (especially 1 and 4) and this put them under time pressure to finish the remaining questions.
- Hard to read handwriting..

Candidates preparing for future F6 (RUS) examinations are reminded that they should always indicate which question they are answering to assist markers in identifying which question is being answered.

Specific Comments

Section A

It should be noted that the majority of candidates attempted all of the questions. Candidates preparing for future F6 (RUS) examinations should make sure they are taking time to both read and understanding the requirements. They should also work through the specimen exam and sample questions discussed here and carefully review how each of the correct answers was 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, including the latest update of the 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

Which of the following statements regarding the obligations of tax agents are correct?

- (1) A tax agent has an obligation to notify the tax authority, in writing, of the inability to withhold tax and the amount of non-withheld tax within one month from the date of awareness of such circumstances
- (2) A tax agent has an obligation to retain the documents required for calculating, withholding and payment of taxes for a period of three years
- (3) A tax agent has an obligation to maintain an accounting for each taxpayer of the income accrued and paid and the taxes calculated, withheld and paid to the budget system

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

This narrative question tested candidates' knowledge of a tax agent's obligations based on the Tax Code provisions.

The correct answer was C, statements 1 and 3 only.

Statement 2 was incorrect since a tax agent is obliged to retain the documents required for calculating, withholding and payment of taxes for four years and not three years as indicated in this statement.

The most popular answer was D, treating all 3 statements as true.

Future candidates are encouraged to make sure that they spend time reading and understanding the questions. .

Sample Question 2

In February 2017 OOO Alpha purchased goods for a future export transaction. The value added tax (VAT) invoices were received by OOO Alpha from the supplier in Quarter 1 (Q1) 2017. The goods were exported in April 2017. The documents confirming the export were collected in July 2017.

Note: The goods for export are not classified as raw commodities.

In which quarter of 2017 will the input VAT on the above goods be recovered?

- A Quarter 1**
- B Quarter 2**
- C Quarter 3**
- D None - the input VAT cannot be recovered**

This question tested the VAT recoverability rules for the goods purchased subject to a future export.

The correct answer was option A - quarter 1.

The most popular answer was option C, quarter 3. However, this is incorrect since the goods were acquired in quarter 1 with all relevant invoices received from the supplier and also the goods for export were not classified as raw commodities.

Option B is incorrect since VAT to be recovered did not depend on the date that the goods were exported. Option D is also incorrect since VAT should be recovered in this case since recovery conditions mentioned above were met.

This question tested relatively new rules introduced to simplify VAT recovery rules for export which were hugely discussed in mass media in 2016 as an additional step toward simplification rules for exporters.

Section B

Question One

This 10 mark question covered the topics of thin capitalisation rules as applicable to the particular scenarios given in the question.

Part (a) for 8 marks required candidates to define the controlled loan, calculate net assets and interest payable, check the limits provided on the page with the rates and allowances for the interest deductibility, calculate the capitalisation coefficient, deductible interest, imputed dividends and the respective withholding tax.

Some candidates were able to identify net assets, interest payable, capitalisation coefficient, deductible interest, imputed dividends and respective withholding tax. However, candidate performance was generally disappointing on this part.

Candidates failed to score well because they made the following mistakes, mostly due to inattentiveness to details:

- Incorrect calculation of net assets by either deducting deferred assets and liabilities or forgetting to add current tax liabilities
- Application of incorrect exchange rate in order to calculate interest payable
- Forgetting to check the limitations for the interest rate to make sure that interest is deductible within the relevant threshold
- Application of 13% withholding tax to dividends

Part (b) for 1 mark required candidates to state the correct tax rate on interest to be withheld and provide a reason for this. Many well prepared candidates managed to provide a reason along with the correct tax rate.

Where candidates did not score well it was generally because they had provided unclear answers with calculations that were not required for this part.

Performance on part (c) for 1 mark was poor, as many candidates wrote that interest should be deductible in this case. Only well prepared candidates provided the correct answer with the respective explanation of non-deductibility.

Question Two

This 10 mark question required a calculation of insurance contributions for a person engaged under a license agreement, as well as for an employee working under a labour agreement.

Part (a) consisted of two sub-parts. In sub-part (i) candidates were required to calculate insurance contributions for the person under a license agreement who has all the supporting documents. The most common mistake was to tax the insurance contributions to Social Fund at 2.9%.

Sub-part (ii) was answered in a good manner by well-prepared candidates. Some candidates assumed that the tax base should be the same as in sub-part (i) even though Peter had lost his supporting documents which was incorrect.

Part (b) of the question required a calculation of insurance contributions for an employee. This part was generally answered well. However typical mistakes included:

- Including professional training in the taxable base
- Voluntary medical insurance for Angelina has been included in the taxable base, taking into account exemption of 12,000 roubles

Question Three

This 10 mark question covered the topics of personal income tax on the sale of securities.

Part (a) focused on personal income tax on the sale of both quoted and unquoted shares.

Sub-part (i) required candidates to state the personal income tax treatment of the gain on sale of unquoted shares with reasons. Some well-prepared candidates did answer this sub-part well. However, many candidates did not answer this sub-part.

Sub-part (ii) required candidates to calculate a personal tax liability on the sale of quoted shares. In this sub-part the common mistakes included:

- Calculating interest expense ignoring the maximum allowable threshold ($15\% \times 1,1$)
- Not taking acquisition costs into account
- Applying a tax rate of 35%

Part (b)(i) for 4 marks required a personal income tax calculation as a result of shares sales and other transactions. It should be pointed out that the imputed interest on the gift received from the close relative was realised by many candidates. However, many candidates failed to recognise the acquisition costs and did not comment on investment deduction. In addition, often a 35% rate was applied instead of a 13% rate.

Part (b)(ii) for 1 mark was a very straightforward question, requiring the indication of the deadline for both an annual personal income tax return submission and for payment of the personal income tax itself. It was surprising therefore that many candidates did not answer this sub-part.

Overall this question answers to this question were unsatisfactory due to lack of technical knowledge being demonstrated by candidates.

Question Four

Question 4 tested candidates on different areas of VAT.

Part (a) tested the application of separate VAT accounting when the assets acquired are used for both taxable and non-taxable activities. It should be noted that part (a) of this question was not answered in a good manner by the majority of candidates due to lack of technical knowledge. However, most candidates managed to stipulate both amounts net of VAT and VAT itself in the correct way and there were very good answers among the well-prepared candidates.

The common mistakes made included:

- Incorrect ratio calculation for the taxable revenue to total revenue or alternatively non-taxable revenue ratio
- Incorrect ratio of expenses related to non-taxable activities to the total expenses for the quarter
- Lack of indication and brief explanation in terms of the 5% maximum criterion
- Lack of split between VAT subject to recovery and VAT to be included in cost

Part (b) on unconfirmed exports and the respective VAT applications was answered in a better way. The majority of candidates applied the correct exchange rate. Input VAT was correctly calculated by those candidates who understood the relatively new rules for VAT recovery under export regime.

However the most common mistake was 18/118 application instead of 18%.

Question Five

This 15 mark question tested personal income tax for an employee.

Part (a) for 9 marks required a calculation of the personal income tax withheld at source by an employer for the year 2017, assuming that the employee asked for all possible maximum deductions to be given at source.

The most typical mistakes were:

- Including annual voluntary medical insurance for Alexander's wife and children in the taxable base
- Not applying the exemption of 4,000 roubles for the reimbursement of his medical expenses
- Calculating the interest deduction instead of imputed interest income

Part (b) for 6 marks asked for the final settlement of Alexander's personal income tax liability on submission of his personal income tax return for the year 2017. This part was generally answered better when compared with part (a).

Many candidates combined their answers to parts (a) and (b) into one answer. Candidates preparing for future F6 (RUS) examinations are reminded of the importance of presenting their answers as clearly as possible.



One of the more common mistakes in this part (b) was lack of exemption for both educational, and social one for medical treatment due to non-submission of the respective entitlements to the employer before the year-end.

Overall the candidate performance on this question was good.

Question Six

This 15 mark question tested corporate profits tax for a manufacturing legal entity, including allocation of direct expenses, limitation for indirect expenses such as voluntary medical insurance, voluntary personal insurance against accidents at work, reimbursement of mortgage percentage and exempt income as well.

Many candidates were able to identify and calculate direct expenses along with their allocation in a correct manner. Non-linear depreciation was also calculated in a correct way by well-prepared candidates.

However, the majority of candidates wasted time calculating insurance contributions which is not required in the question and this is explicitly stated in the notes to the requirements.

It was surprising that some candidates treated TV advertising expenses as subject to 1% revenue limitation since these expenses are treated as unlimited by the tax law. In terms of dividend income, many candidates considered it as a taxable income and taxed it at a rate of 15%. Not all candidates recognised that inventory shortages should be treated as non-deductible expenses.

Overall performance on this question was good.. It should be pointed out that performance could be improved if candidates carefully read both the scenario and the requirements.