

# Examiner's report

F6 Taxation (CYP)

December 2013



## General Comments

The examination paper consisted of five compulsory questions (question 1 for 30 marks, question 2 for 25 marks, question 3 for 20 marks, question 4 for 15 marks and question 5 for 10 marks).

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

A limited number of candidates continue to display their answers poorly, with a lack of clear labelling to indicate which questions are being attempted. Questions divided in sections must be answered separately by section and not answered as a single question.

On the other hand, the majority of candidates presented their answers in a professional manner, using clearly referenced workings, labelled to show the different parts to which they related.

It continues to be important for candidates to practise writing well presented, concise answers, using clear handwriting, and that are relevant to the questions asked. Candidates are reminded to read the question paper carefully, including the tax rates and allowances section, so as to pick up all important information and be able to answer the question set.

Candidates performed particularly well on questions 1a, 2a, 3a, 3b, 4a, 4b. The questions candidates found most challenging were questions 1b, 2a, 3c, 4c, 5a and 5b. This is mainly due to candidates not understanding the core syllabus areas sufficiently well, a lack of technical knowledge and also due to a failure to read the question requirements carefully.

A number of common issues arose in candidate's answers:

- Failing to read the question requirement clearly and therefore providing irrelevant answers which scored few, if any, marks.
- Poor time management between questions - some candidates wrote far too much for some questions and this put them under time pressure to finish the remaining questions.
- Providing more than the required number of points.
- Unreadable handwriting and poor layout of answers.

## Specific Comments

### Question One

This was a 30 mark question testing candidates' ability to cope with various aspects of income tax and special defence contributions for two individuals, including the computation of taxable income.

Part (a) for 20 marks required candidates to calculate the income tax payable/refundable and the special defence contribution payable of Mr Costas Costoulas for the year 2012.

This question was answered well by most candidates who displayed a good understanding of how to calculate income tax payable for an individual employee. A common mistake was not applying the maximum limit on the annual insurable income of employees. The main problems encountered were that candidates struggled to differentiate between allowable deductions, personal allowances and exemptions. In addition a significant



minority of candidates did not read the question carefully, and instead of calculating the taxable income of an employee, calculated the taxable income of a self-employed individual. This scored no marks.

The second part of this requirement was to explain the exemptions used in the calculation of income tax payable. Again, this was answered well by the majority of the candidates. However, a common mistake was to explain which expenses are deductible. Again, this scored no marks.

As noted, candidates often confuse allowable deductions and personal allowances. Future candidates must ensure that they understand the difference between these and should practice questions requiring the use of both.

In addition, the question asked candidates to calculate the special defence contribution payable, and to state the due payment dates for rental income. Candidates demonstrated that they knew how to apply the correct rate of special defence contribution. However, a number of candidates were confused about the due payment dates.

Part (b) was a 10 mark question and tested candidates' knowledge on the subject of employment income compared to income from a contract for services.

The majority of candidates demonstrated a lack of knowledge in this question and, consequently, the two parts of the question were not well attempted. Candidates were generally unable to apply the relevant theory to the specific case. The most common mistakes made by some candidates were:

- Providing the factors but not referencing them to the specific case.
- Repeating the same factors in different wording.
- Failing to identify that Eleni's income should be treated as business income.
- Treating Eleni's income as employment income.
- Calculating the income tax liability even though the question requires the calculation of taxable income.

### **Question Two**

This was a 25 mark question on corporation tax and also tested candidates' basic knowledge of Group loss relief.

Part (a) for 22 marks tested candidates' ability to calculate the taxable profit/ (loss) of a company. This part was well attempted and candidates displayed a satisfactory understanding of how to calculate taxable income. Many candidates prepared strong answers, which demonstrated a sound knowledge of the subjects under examination and of the adjustments required in order to arrive at the correct figure of taxable income. It was also pleasing to see that many candidates were well prepared to calculate the capital allowances and balancing adjustments correctly. However, fewer candidates were able to correctly apply the interest restriction.

Part (b) for 3 marks tested candidates' basic knowledge on Group loss relief.

Although this was a straightforward requirement, candidates did not perform strongly. Other than the 75% ownership condition, candidates seemed unaware of the new provisions that define a tax group in the case of the incorporation of a wholly owned subsidiary within a tax year. Many candidates showed a lack of understanding of the full definition of a group.

### **Question Three**

This was a 20 mark question and tested candidates' ability to calculate the chargeable capital gains arising on the exchange of properties.

Part (a) for 5 marks examined the conditions which must be met in order for the principal dwelling house exemption to apply. This question was related to the scenario and was knowledge based, and candidates

performed satisfactorily. Where candidates did not score full marks this was because they failed to read the question properly.

Part (b) for 12 marks asked candidates to calculate the chargeable gain arising on the exchange of the old family house for a new flat, and the restated value of the flat. This question was generally answered well. A number of candidates correctly deducted the general lifetime exemption from the capital gain as the principal dwelling house exemption was not available. Most candidates knew that the commission paid on the sale of immovable property is allowed only if paid to a licensed estate agent, and a small number of candidates computed and added to the capital gain the capital allowances claimed against the rental income in the past. However, only few candidates were able to calculate the restated value of the new flat.

Part (c) on the subject of the administration and collection of capital gains tax was answered satisfactorily overall. Candidates seemed to be aware of the law concerning the payment of capital gains tax. Also candidates seemed to be aware of the legal provisions regarding the actions that the Director can take in cases where no self-assessment declaration is submitted. However, a number of candidates wasted valuable time by describing the procedures to be followed for objecting to a best judgment assessment which was raised by the Director. This generated no marks as it was not part of the requirement. Candidates are reminded that they must answer the question asked as opposed to the one they wish had been asked.

#### **Question Four**

This 15-mark question was based on the VAT obligations of Petroulas Sports Ltd.

Part (a) for 9 marks tested the VAT payable by a VAT registered trader, and its due date. Candidates performed well on this practical requirement. However, a number of candidates answered the question on the assumption that the sales and purchase figures included VAT although the question stated that the figures were VAT exclusive. Although this was a relatively straightforward requirement, some candidates lacked the required knowledge on computing VAT payable.

Part (b) for 3 marks tested candidates' ability to describe the circumstances in which relief for bad debts may be given, and when a voluntary correction of VAT errors can be made. Candidates performed satisfactorily on this part of the question. Most candidates were aware of the conditions that must be satisfied, but they displayed a lack of ability to apply them to the specific scenario. On the other hand, it was pleasing to see that many candidates used the small scenario provided to make their answers relevant, as this was not a general requirement, but one applied to Petroulas Sports Ltd.

Part (c) for 3 marks required a description of the importance of the tax point. Candidates' performance was generally satisfactory although some answers tended to be overly detailed. Some candidates explained fully the tax point theory despite the requirement being only about the importance of the tax point.

#### **Question Five**

This 10-mark question tested candidates' knowledge of the different methods to be used in order to extract profits from a company. Specifically, the question required the comparison of two alternative forms of remuneration. Fairly straightforward computations were required to calculate the additional tax liability from the viewpoint of the taxpayer, as well as the tax implications for the company in providing the remuneration.

Part (a) for 7 marks required the calculation of the additional income tax, special defence contribution and social insurance contribution liabilities of Mr Perikles Wise. This question was related to the scenario, and was not answered well by many candidates. Candidates found this part challenging, and are reminded to refer to the tax rates and allowances section of the paper where useful information is given to them, for example the limit to the maximum annual insurable income of employees.



Part (b) for 3 marks required the calculation of the additional social insurance contributions payable by Alphrodite Ltd. Candidates performed well on this requirement.