

# Examiner's report

## F6 CZE Taxation (CZE)

December 2014

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### General Comments

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

As in previous sessions, a small minority of candidates answered questions in a different order. Leaving questions 1 and 2 for 55 marks in total until last can be a risky strategy, as many answers presented were incomplete or appeared rushed.

Candidates performed particularly well on questions 1a, 1b, 2 and 5. The question candidates found most challenging was question 4. This is mainly due to candidates not covering some core syllabus areas well enough; a lack of technical knowledge and also due to a failure to read question requirements carefully.

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

- Not reading the question requirement carefully 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 remaining questions.
- Providing more than the required on some points and not enough on others.
- Crossing out whole parts of computations. Candidates should not delete parts they spent valuable time on unless they replace it with a better answer.

### Specific Comments

#### Question One

The 30-mark question was based on a Czech tax resident company with German and Russian shareholders. The focus was on the corporate income tax calculation in part (a), tax return and tax due dates in part (b), withholding tax in part (c) and computation of corporate income tax advances in part (d). Part (a) tested candidates' capability of preparing the corporate income tax return, calculating the accounting profit and deriving the tax base from it including adjustments to comply with the relevant legislation, namely tax deductible and non-deductible costs, reflection of acquisition and sale of shares, tax depreciation charges, loss relief and other deductions. Part (b) required the due date for both the tax return and the tax due in the case of a corporate taxpayer whose accounting was subject to a statutory check. Part (c) focused on taxation of a dividend paid to individual and corporate shareholders resident in an EU and in a non EU state, and part (d) tested candidates' ability to calculate the corporate income tax advances. The format of question 1 was similar to previous years.

Many candidates performed very well on parts (a), (b) and (d) of this question. A number of candidates showed a very good knowledge of various structural elements of the tax base, namely tax depreciation. Some candidates forgot to include the insurance reimbursement for stolen laptops in the accounting revenues and could not gain full marks. A number of minor and rather unnecessary mistakes occurred, such as omission of deducting the loss relief, using the incorrect maximum percentage for a tax deductible gift and incorrect rounding.

Part (b) was correctly answered by the vast majority of candidates.

The performance was similarly good on part (c), withholding tax on dividends, though a few candidates showed a lack of knowledge of the elementary rules. Some candidates forgot that the participation exemption does not apply to holdings belonging to individual shareholders and some also mixed up thresholds and therefore were losing marks.

The computation of corporate tax advances in part (d) was done very well by most candidates although only a few of them rounded the advances correctly.

### **Question Two**

This 25-mark question covered the personal income tax calculation of a Czech tax resident with different types of income living in a common household with his wife and an adult son. Candidates were required to apply rules on the computation of separate tax bases on employment income including calculation of monthly payroll, business income, rental income and other income. Part (b) focused on social security and health care contributions of a taxpayer with a high portion of employment income reaching the cap. Part (c) required a narrative explanation of the cooperating person role.

Part (a) consisted of the computation of the personal income tax and a large number of candidates provided excellent answers. Some candidates did not include the free rent in the employment income others forgot about the social security contributions cap.

Many candidates did not apply the credits correctly. Some candidates did not apply the spouse credit, some child credit, although his son, Karel, studies at the University and lives in a common household with his parents.

Common mistakes in part (a) included:

- Including employment income in the business income.
- Application of a wrong percentage of lump sum expenses on rental income.
- Omission of prepayments withheld by Home.

Parts (b), and (c) were omitted by many candidates. Those who answered gave only partial responses and could not receive full marks. In part (b) only a very few candidates were able to state the basic rules for acting as a cooperating person.

### **Question Three**

This 15-mark question was on a new quarterly value added tax (VAT) payer performing local as well as international transactions. It covered local and international transactions, EU transactions subject to the reverse charge mechanism, exempt supplies without recovery of input VAT, and credit notes.

The structure of the question was similar to previous years. The question stated that all the amounts were exclusive of VAT, nevertheless those candidates who applied a customary approach in the case of credit notes were receiving full marks.

Performance on this question was very good and only minor mistakes occurred. Some candidates did not apply correctly the rule on exempt exports, and a few forgot about the assets held at registration.

### **Question Four**

This 15-mark question was based on a company that received a reassessment after a tax audit. The audit revealed a routine mistake in computation of tax depreciation allowances. At the same time the company could have used the tax loss allowance. Candidates were required to advise on actions that could be taken in order to diminish the reassessment (part (a) and part (b)) as well as they were asked to calculate the amount of sanctions due by the taxpayer (part (c)), and interest due by the tax administration (part (c)) under various scenarios.

This question was the poorest answered question in the paper. A significant number of candidates did not address parts (a), (b), and (d) at all and only attempted a computation of the sanctions. Though part (c) was the best answered part in this question, performance was still not satisfactory. Some candidates did not distinguish between the penalty and interest; others applied rules that were repealed more than 3 years previous. Since most answers to the question 4 were very brief, it is difficult to comment on particular reasons. Traditionally questions on tax administration and management remain to be unpopular in the F6 exam and performance was disappointing, with candidates showing a lack of knowledge on topics related to tax management and administration. This appears to be regardless of whether they are included in a separate question or a part of a question on other subject.

#### **Question Five**

This 15-mark question focused on employer's obligations towards tax administration and social security and health care insurance contributions administration when providing seasonal workers with various fringe benefits. Part (a) focused on (i) deductibility by employer for income tax purposes, (ii) taxability of benefits for employees, and (iii) liability for employer's social security and health care contributions. Part (b) tested candidates knowledge of due dates.

The performance on this question was excellent, probably the best of the whole paper. Most of the candidates correctly recognised tax deductible items and some applied a nuanced approach when stating that e. g. meal voucher are tax deductible when additional statutory conditions are met. Similarly recognition of taxable items for employees was done with hardly any mistakes by many and marks were very high, particularly on parts (a)(i) and (ii). Unnecessary mistakes occurred when some candidates did not pay enough attention when reading the question and/or writing the answers and stating something different than they might have intended, e. g. "tax deductible" items for employer in part (a)(ii) (which was on the taxability for the employee). They could not gain any mark for this part even if "yes" and "no" answers might have been correct.

Performance on part (b) was not as good as on part (a). Similarly as in question 4 it seems that whenever the paper touches upon the procedural questions candidates immediately become much less confident than when calculating corporate or individual income tax liability. Nevertheless many correctly stated at least some of the three due dates and received fair marks.