



Examiner's report

F6 Taxation (CZE)

June 2012

General Comments

The examination consisted of five compulsory questions (question 1 for 30 marks, question 2 for 25 marks and three further questions for 15 marks each) with an approximate 5:1 split requirement for computation and narrative respectively.

Almost all candidates attempted all five questions; only some of them omitted parts in questions 1 and 3, in particular parts (d) and (e) in question 1, and part (c) in question 3. There was little evidence of time pressure, although overall performance on question 5 was not quite as good as on questions 1 to 4. Candidates who were able to attempt all parts of all questions showed a good depth of knowledge along with good exam technique.

Candidates performed particularly well on questions 1a, 1b, 2a, 2b, 2c, 3a, 3b, 4b, 4c, and 4d. The questions candidates found most challenging were questions 1d, 1e and 5. Candidates are reminded of the need to prepare thoroughly for all of the core areas of the syllabus.

Although many candidates labelled, displayed and organised their answers well, the most successful candidates also:

- read the question requirement carefully, therefore providing relevant answers
- managed their time effectively so as to have time to attempt all parts of each question
- had legible handwriting and used a transparent layout for answers, avoiding the use of abbreviations and symbols
- gave complete workings that were easy to follow

Specific Comments

Question One

The 30 mark question required a corporate income tax return of a joint stock company with 95 employees to be prepared. It covered the computation of a corporate tax base (loss), withholding tax on profit distributions as well as employer's payroll tax compliance.

Part (a) examined knowledge of how the tax base is derived from the accounting profit and adjusted to comply with the relevant legislation. Amongst others, it tested candidates' abilities to calculate the tax residual value of a burned asset, recognise tax non-deductible items and calculate the tax on unpaid debts.

As in previous sessions a large number of candidates demonstrated a solid knowledge of the subject. Many correctly adjusted the tax base by adding back tax non-deductible expenses and deducting the difference between the tax and accounting depreciation charges and the residual value of the burned asset, correctly using as the starting point accounting profit. It is important to do this because the tax base of a corporate entity must always be derived from the accounting profit.

A significant number of those who did not derive the tax base from the accounting profit presented their answers in a multi-columnar format e.g. one column accounting revenues, one accounting expenses, another tax non-deductible items, another tax non-relevant items. This presentation tended to result in a confused result, rather than the concise and relevant answers sought.

A number of candidates did well to remember when adding back the cafeteria costs that the operational costs are tax deductible and that only 50% of the tax residual value of a burned asset is deductible, and chose the correct acquisition value when calculating the tax residual value of the plant. One or two candidates stated that the asset may have been destroyed intentionally by an employee therefore its residual value cannot be deducted, which is

correct although there was nothing implying such a scenario in the question. The strongest candidates noted that they were not required to calculate the tax liability, thereby saving time.

In part (b) a number of candidates correctly explained how the tax loss can be carried forward, and the best answers explained clearly and precisely the relief available.

Part (c) tested candidates' abilities to calculate the amount of withholding tax on dividends paid to individual and corporate shareholders from EU member states with holdings below and above 10%. Most candidates performed very well on this part. Some mistakenly treated as exempt the profit distribution paid to an individual shareholder, or to a corporate shareholder from a holding below 10%.

Parts (d) and (e) examined employer's obligations concerning payroll tax, the documentation they have to keep and the deadlines for the annual reconciliation, which candidates found challenging. Candidates needed to provide precise answers, listing some documents specifically mentioned in the legislation, e. g. payroll sheet and summary of tax withheld. A small number of candidates are to be congratulated for stating the correct deadline for the electronic reconciliation.

Question Two

This question for 25 marks tested the area of individual income taxation and social security and healthcare insurance of a self employed artist.

In part (a) candidates were required to calculate the tax due by an individual taxpayer with employment, business and rental income, where part of the business income had its source in Japan. The majority of candidates correctly calculated the three partial tax bases including the correct application of lump-sum expenses. The strongest candidates calculated the correct amount of the foreign tax credit and produced accurate computations. Most candidates remembered to calculate and deduct prepayments withheld by Teresa's employer.

Common mistakes in part (a) were:

- omitting to include in employment income travel allowances over the statutory limit
- treating royalty as other income
- claiming the pension insurance allowance though the provider of the insurance is a Swiss tax resident
- incorrect rounding of tax base when calculating employer's prepayments

Parts (b) and (c) required candidates to calculate social and health care insurance contributions from business income and 2012 income tax advances, including the relevant deadlines. A large number of candidates presented excellent answers, especially as far as the calculation was concerned, and correctly stated the relevant deadlines.

Part (d) required candidates to distinguish between scholarships from public and private funds, and was very well answered by a few candidates.

Question Three

This 15 mark question on VAT comprised three parts, one testing knowledge of the rules on claiming back VAT paid in the Czech Republic by a Swiss company, a second, the ability to apply the rules on calculation of VAT due by a monthly VAT payer, and a third, the rules on how a monthly VAT payer can become a quarterly VAT payer.

The performance on part (a) was good; those who attempted it demonstrated a solid knowledge of the concept. Common mistakes were claiming VAT back for fuel and meals, and describing the procedural rules for the application for refunds incorrectly. Candidates are reminded of the need to learn the deadline dates for VAT.

Part (b) was very well answered. Many candidates presented excellent answers. In part (b)(ii) a number of candidates assumed that the limit was not exceeded and stated the place of the taxable supply stayed in the Czech Republic in both cases, which was acceptable as the question was not specific in this respect.

Candidates found part (c) more of a challenge than parts (a) and (b), with a number appearing to confuse the rules on registration with the rules on deregistration. The strongest candidates were able to confidently apply the rules to the scenario provided.

Question Four

Question 4 for 15 marks was on the subject of taxation of income from the sale of immovable property received by an individual resident taxpayer and on taxation of employment and retirement income, and used five scenarios combining different types of income in various situations.

In part (a) the majority of candidates correctly stated that income from the sale of property, having been part of business assets for less than two years before the sale, was taxable, and used the correct acquisition value to arrive at the tax residual value of the flat. Candidates who gave incorrect answers to this part, stating that the income was exempt, may have misread the question.

The performance on parts (b) and (c) was very good; many candidates were able to give reasons why the income was exempt. Similarly in part (d) a large number of candidates correctly answered that the income from the sale of the house was exempt and why. A few candidates did very well to provide accurate answers for rental income, deducting lump-sum expenses and the tax depreciation charge.

The performance on part (e) was variable. Most candidates were able to correctly tax the employment income and state that the retirement pension was exempt, with the strongest candidates explaining why this was the case. A small number of candidates are to be congratulated for knowing how to tax the income from the private pension scheme.

Question Five

This question for 15 marks covered the area of tax depreciation allowances and tested candidates' abilities to calculate tax depreciation charges on tangible and intangible assets in various situations, a core part of the syllabus.

The vast majority of candidates attempted the question and were able to calculate depreciation charges in most common situations. The best prepared candidates were also able to deal with specific details and tailor their answers to the scenario provided. As the last question in the paper, it is possible that some candidates had not left enough time to demonstrate their understanding of this area.

Candidates producing the best answers:

- added the technical improvement to the original acquisition price of the projector, rather than depreciating it as a new asset
- continued the depreciation of the camera commenced by the silent partner
- took into account the technical improvement of the 'Lost Beauty'
- calculated the depreciation charge only on the technical improvement to the rented property, and not on the premises as a whole