

Examiner's report

F6 Taxation (CZE)

June 2014



General Comments

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

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

As in previous sessions, a majority of candidates answered questions in the same order as in the question paper. Some candidates answered in the reversed order (5 to 1), but these answers were often incomplete. This method seems to be more difficult from the point of view of the time management and candidates who chose it gave the impression they are more rushed than those starting with questions 1 and 2.

Candidates performed particularly well on questions 1(a), 1(b), 1(c), 3(a) and 5. The questions candidates found most challenging were questions 1(d), 3(c), and 4. This is mainly due to candidates not understanding 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 resulting in scoring no marks for the relevant parts. Candidates should not delete parts they spent valuable time on and did not replace with a better answer.
- Illegible handwriting and poor layout of answers.

Specific Comments

Question One

This 30-mark question was based on a Czech tax resident company. The focus was on the corporate income tax calculation in part (a), tax advances calculation in part (b) monthly payroll calculation in part (c) and a narrative capability of definition of a permanent establishment 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, taxable and exempt employees benefits, tax depreciation charges and other deductions. Part (b) focused on the detailed calculation of tax advances including the relevant deadlines. Part (c) required computation of the payroll tax to be withheld by the employer for a resident and a non-resident employee, and part (d) tested candidates' knowledge of a permanent establishment definition. The format of question 1 was similar to previous years.

Most candidates performed very well on parts (a) and (b) of the question. A number of candidates showed a very good knowledge of employees' benefits. Some assumed the paid benefits were received by employees in cash and therefore considered them taxable for employees, which is a correct alternative that was rewarded with full marks if well-reasoned. Similarly if the contributions covered from the social and cultural fund were accounted for as a balance sheet operation, candidates were gaining full marks. This approach was applied rarely, nevertheless some students having used the balance sheet method disappointed by adding back the "non-deductible" items that have not been reflected in the accounting profit and those could not gain full marks. A vast majority of candidates performed very well on tax depreciation, except the tax depreciation of intangible asset where candidates made many mistakes. A number of minor and rather unnecessary



mistakes occurred, such as omission of deducting the 2013 corporate income advances, using incorrect maximum % for tax deductible gift and incorrect rounding. Computation of corporate tax advances was done very well by most candidates although only a few rounded the advances correctly.

The performance was similarly good on part (c) – calculation of monthly payroll.

The poorest answered part in question 1 was the narrative part requiring the definition of a permanent establishment. Too few candidates were able to come up with a satisfactory definition of a principal tax term to gain full marks. The reason for that seemed to be the lack of knowledge and mainly understanding of the concept of a permanent establishment.

Question Two

This 25-mark question covered the personal income tax calculation of a Czech tax resident retiree receiving different types of income in addition to the pension. It tested candidates' knowledge of identification of income taxable in various separate tax bases and also income subject to a final withholding tax. In addition to that candidates were expected to recognise the exempt income, namely in case of capital gains, apply the rules on taxation of rental income, tax base allowances and tax credits. Part (b) focused on reporting and payment deadlines and part (c) was on social security and health care contributions obligations.

The performance on question 2 was rather variable. Some candidates provided excellent answers and many of them obtained (almost) full marks, others were making critical mistakes and therefore could not gain very high marks.

Common mistakes in Part (a) included:

- Inability to recognise correctly which employment income is included in the separate tax base and which is subject to the final withholding tax.
- Including employment income in the business income.
- Inability to distinguish between the taxable and exempt capital gain.
- Omission of service fee deduction or no application of an allocation rule.
- Claiming the mortgage allowance although it was linked to an apartment where Mr Srb did not live.
- Claiming spouse and children credits.
- Omission of prepayments withheld by Travela.

Parts (b) and (c) were answered very well by many. Some students forgot that no insurance contributions are due on rental and other income. A number of candidates did not attempt part (c) at all.

Question Three

This 15-mark question on VAT tested the place of taxable supply in part (a), procedure for refund receipt in part (b) and sanctions for non-compliance in part (c). No calculation of VAT and no identification of VAT supplies were examined this time, which made the question slightly different from previous sessions. Despite that part (a) was very well answered.

Candidates showed a solid knowledge of rules on determination of the place of taxable supplies and most of them gained good marks on this part. Some mistakes occurred in the case of goods being collected in Hungary by a Czech person registered for VAT in both Czech Republic and Hungary and in the case of a conference organised in Slovakia.

On the other hand too many candidates disappointed by not addressing parts (b) and (c) sufficiently. These parts, and part (c) even more often than part (b), were not answered by many, and those who attempted it did not gain very high marks either. Traditionally questions on tax administration remain to be unpopular in the F6 CZE exam and candidates continue to disappoint by showing lack of knowledge on topics related to tax management and administration regardless of whether they are included in a separate question or a part of question on another subject.

In part (b) a number of candidates were able to state, that the refund will be paid to Falka automatically, but very few stated the maximum time limit.



In part (c) a significant number of candidates kept applying the rules applicable before 1 January 2011. In addition to that some of those who attempted this part were losing valuable time by calculating interest due in addition to the penalty which they were not asked to. They could not gain any marks for that and might cause time pressure with further questions due to insufficient reading of what they were required.

Question Four

This 15-mark question was based on a Czech tax resident company selling various types of financial assets and candidates were required to apply the rules for recognition and timing of the relevant gains and losses in the tax base. The companies being sold were resident in various jurisdictions and candidates needed to decide whether the capital gain was taxable in part (a), where it was they were asked to calculate the relevant taxable income and state the applicable tax rate in part (b) and in the case of two companies they were required to apply rules on taxation of the profit distribution. Many candidates provided very good answers in part (a), though a number of them forgot that the capital gain on Bahamas tax resident cannot be exempt as the relevant corporate income tax rate is below 12%. Similarly in case of ASTA and BEA some forgot that the 10% threshold is necessary for exemption. Some candidates did not show any reasoning against their conclusion taxable/exempt and could not gain full marks. Candidates should pay attention to justification of their statements otherwise their answers remain incomplete even in the case where the conclusion is correct. A few candidates gave wrong justification to a correct conclusion and could not naturally gain the full marks either.

Performance on part (b) was good, although some candidates tried to arrive at the tax liability instead of the taxable income and got confused when trying to calculate the relief for double taxation and realising they did not have sufficient information for that. Again, they failed to read and understand the question properly and lose the time by doing something they were not required to.

Part (c) appeared to be the most difficult in question 4, some candidates mixed up the inbound with an outbound dividend and applied the withholding tax, some others concluded that the respective profit distribution was exempt. It seems that candidates need to study the rules on taxation of capital gains and dividends thoroughly and aim at understanding the overall logic of the system so that they would not be applying individual rules in isolation.

Question Five

This 15-mark question focused on the taxation of the employment income of a resident individual. Part (a) required a payroll tax advance computation of an income received by an individual where different types of benefits were involved. In Part (b) candidates were asked to state whether the selected items could be deducted from the tax base.

The performance on this question was excellent, probably the best of the whole paper. Most candidates correctly recognised taxable and exempt items as well as applied the relevant credits and calculated the tax prepayment. Some encountered difficulties when applying the solidarity surcharge and others forgot or failed to correctly round the prepayment.

Part (b) was also very well answered by many and only minor errors occurred. Similarly as in the previous question the marking took into consideration not only the correct calculations, but also good reasoning and justifications. If the treatment was correctly justified candidates were receiving full marks. For example where a candidate transparently assumed that a school tuition was a monetary payment to Mrs Vostra instead of a payment directly to the school and therefore treated this benefit taxable they gained full marks.