Examiner's report
F6 Taxation (POL)
June 2013

ACCA

General Comments

The examination consisted of five compulsory questions. 30 marks was to score for Question 1, 25 marks for question 2 and 15 marks for each of the further three questions.

The vast majority of candidates attempted all five questions. Time pressure did not seem to be too high to cope with all the requirements. Where questions were left unanswered by candidates, this appeared to be due to a lack of specific knowledge.

Generally this exam was well answered by the candidates who were well prepared and demonstrated good exam technique.

Candidates performed particularly well on questions 4(a), 4(b) and 4(c). The questions candidates found most challenging were questions 1(b)(ii), 1(b)(iii) and 5(a). This appears to be due to candidates not understanding core syllabus areas well enough and to a failure to read question requirements carefully.

A number of common issues arose in candidates' answers:

- Failing to read the question requirement clearly and therefore providing irrelevant answers which scored few if any marks.
- Providing more than the required number of points.
- Illegible handwriting and poor layout of answers.

Specific Comments

Question One

This 30-mark question was based on a company providing courier services, Speedy Gonzales Sp. z o.o. ('SG') and tested candidates' ability to calculate corporate income tax (CIT) as well as knowledge of the CIT treatment of selected transactions observed often in the Polish economy.

Part (a) for 18 marks required candidates to calculate the CIT refundable to SG as of the end of the year 2012. Most candidates performed well on this part. Candidates remembered to decrease accounting income by the advance payment, dividend, foreign exchange differences, insurance claim and depreciation related to the warehouse; and increase accounting income by interest receivable, salaries paid after the due date, bad debt charges not allowed for CIT purposes, the tax depreciation adjustment relating to computers, unpaid interest and the donation. Unrecoverable VAT should have been treated as a CIT cost. The bad debt charge consisted of tax disallowed items (increase in the general provision, loan to employee written off, loan to business partner written off) and of tax allowed items (receivables certified as unrecoverable by a court bailiff and low value receivables written off with protocol in place). Some candidates forgot to add back the value of computers expensed directly as cost of sales from an accounting perspective as low value items, and to calculate tax depreciation for nine months.

Part (b)(i) for 2 marks required candidates to comment briefly on the CIT treatment of unrecoverable VAT, (b)(ii), also for 2 marks, to comment briefly on the CIT treatment of yearly corrections of VAT on purchases related to both VATable and VAT exempt sales, and (b)(iii), again for 2 marks, to comment on the CIT treatment of yearly corrections of VAT on purchases of fixed assets related to both VATable and VAT exempt sales.

Generally, candidates provided acceptable answers to (b)(i). Many answers consisted only of information that non-recoverable input VAT is allowed as CIT deductible cost. A few candidates are to be congratulated for spotting the fact that, if an expense does not fulfil the general definition of a CIT cost, the VAT related to the

expense is not CIT deductible either. Part (b)(ii) was well answered by a few candidates who pointed out that additional recovery of input VAT as a result of the VAT correction make taxable income increase, while VAT corrections resulting in a decrease in the recovery of input VAT make costs increase (and taxable income decrease). Candidates tended to find (b)(iii) challenging with a very few candidates doing well to explain that VAT corrections relating to the acquisition of fixed assets should be treated in the same manner as those relating to purchases of goods or services, but without an impact on the depreciation charge, so only on CIT income/cost.

Candidates could score up to 3 marks for part (c), which asked for an explanation of the CIT treatment of costs related to a given year but for which the invoice was delivered after the year end. This part of the question was answered well. Many candidates noticed that costs should be recognised in the year in which corresponding revenues are recognised, that, for tax purposes, direct costs relating to a given year and documented after the year end but before the earlier of the date the CIT return is filed, the deadline for filing the return, or the date the financial statement is accepted, are accounted for and reported in the CIT return for the given year, and that costs documented after the deadline are treated as taxable costs in the following year.

Part (d) for 3 marks required candidates to explain CIT treatment of salaries and employer's social security contributions (SSC) related to a given year but paid after year end. Candidates scored well on this part of the question. Salaries and SSC may still be attributed to the year end to which they relate provided that salaries were paid within deadline set in the labour agreements and SSC within the statutory deadline. Both liabilities paid after the deadlines must be allocated to the next tax reporting period.

Question Two
This 25-mark question related to Mona Lisa Turbo, a woman employed in the IT business, and checked candidates' ability to identify non-employment income which should be excluded from Mona's consolidated Personal Income Tax (PIT), and to prepare the consolidated yearly PIT computation.

Part (a) for 5 marks required candidates to list the items not included in Mona's yearly PIT return and to give reasons for such treatment. This part of the question was answered fairly well. While many candidates properly listed the sale of the apartment, bank interest received, insurance receipts, casino winnings and lottery winnings as excluded items, the reasons for excluding them were not always mentioned.

Part (b) for 20 marks asked for the preparation of the consolidated PIT computation for the year 2012 and to show tax refundable for the year. Candidates performed very well on this part. Most candidates included gross yearly salaries, free medical package for a year, excess per diem, excess hotel expenses and gift and training not related to duties as emoluments which were a base for the social security calculation. After deducting social security most candidates arrived at the correct health service contribution (HSC) base. Then cost of employment of PLN 2,502 was deducted (as per the statutory cap) and other income was added - from sale of copyrights reduced by 50% costs, from rent of the apartment and from the auction trade (only for items bought within six months). Many candidates experienced problems with calculating income from rent of the apartment, which consisted of annual revenue from rental less annual maintenance services, depreciation calculated as 1.5% of apartment purchase price and interest.

Afterwards most candidates correctly applied the joint taxation mechanism as Mona was a single parent with two children. Despite the number of children, the tax base was divided by two, then tax was calculated based on the PIT scale and then multiplied by two. At the end of the computation child relief of PLN 2,224 (two children) and HSC at 7.75% was deducted to arrive at tax for the year. To calculate the tax refund, advances withheld were deducted from the figure for tax due for the year.

Question Three
This 15-mark question tested VAT knowledge based on transactions accounted for by Przewózex Sp. z o.o. (Przewózex) - a transport company.

Part (a) for 11 marks required candidates to calculate VAT due by Przewózex for August 2012. Generally candidates performed very well on this part. Most candidates noticed that sanitary services were VAT exempt and did not calculate input or output VAT related to this part of Przewózex's business. Output VAT on chocolates was zero as input VAT was not deducted. There is no input VAT on salaries as they are out of the scope of VAT. Most candidates correctly determined transaction values as VAT inclusive or exclusive, noted that services purchased from Germany did not include VAT on the invoice from the supplier, and correctly applied the 75% ratio (as per 2011) to input VAT on purchases relating to both VATable and exempt sales.

There were 4 marks for part (b), which asked for the calculation of the VAT correction for the purchase of goods and services and fixed assets in August, assuming that the ratio of VATable to total sales changed from 75% to an actual ratio of 65%. This part was answered well. The majority of candidates calculated the correction of input VAT related to purchase of goods and services and fixed assets properly; a number of candidates did very well to notice that the intra community purchase of services (from Germany) was also subject to input VAT relating to both VATable and exempt sales. Most answers correctly divided the amount of the input VAT correction relating to fixed assets over 5 years.

Question Four
This 15-mark question was designed to check the ability of candidates to understand the tax impact for Mścisław and the bank of alternative situations: when Mścisław works for the bank as an employee under a standard labour contract, or when he renders the service for a bank acting through his individual business activity.

Part (a) for 4 marks asked candidates to calculate Mścisław's net salary (actual cash received after taxes). This part was very well answered. Social security at 13.71% and nominal employee cost of PLN 1,335 were deducted from the gross annual salary to arrive at the PIT base, then PIT was calculated. Some candidates calculated net salary correctly, deducting only social security and the tax charge from the gross salary.

Part (b) for 2 marks asked candidates to calculate the bank's cost of employing Mścisław under a labour contract. This part was answer exceedingly well. The majority of candidates added 20.74% of employer social charge to the gross salary cost.

Part (c) for 3 marks required candidates (i) to calculate the cost to the bank's of purchasing service from Mścisław acting through his individual business activity and (ii) to calculate the service fee for Mścisław's services which result in a cost for the bank equal to the amount from part (b). This part of the question was answered very well. In part (c)(i) the initial net service fee was equal to 1.23% of the gross salary. VAT was added to calculate the total cost to the bank. In part (c)(ii) the new service fee was equal to the bank's cost from part (b) divided by 1.23%.

Part (d) for 4 marks asked candidates to calculate the net service proceeds of Mścisław from the adjusted service fee (per (c)(ii)). This part was answered less well. The calculation of the net service proceeds consisted of three elements: net service income after VAT as per (c)(ii) less social security and tax. A few candidates are to be congratulated for calculating social security correctly as 60% of the average monthly salary times 34.35% times 12.

Part (e) for 2 marks required candidates to state how and when Mścisław's tax liability is paid assuming he continues with his individual business activity. This part of the question was answered well. Some candidates remembered to mention monthly advances (due by 20th day of the following month) as well as the final tax return due on 30 April of the next year when the difference between monthly advances and tax due for a year is payable/refundable.

Question Five

This 15-mark question tested thin capitalisation and the tax treatment of a leasing contract in Stefano Sp. z o.o. (Stefano) which financed its operations from bank loans, loans from the related parties and leasing.

Part (a) for 10 marks required candidates to calculate the amount of loan interest that will be treated as a tax non-deductible cost for Stefano due to the thin capitalisation regulations; candidates found this part challenging. Most candidates knew that thin capitalisation relates to the situation when the debt to equity ratio is higher than three, and a few properly identified qualifying debt and qualifying equity. Qualifying debt consisted of the loan from Marco Sp. z o.o. (Stefano's parent), the loan from Dino Sp. z o.o. (Stefano's sister) and interest calculated on those two loans for eight months of 2012. The loan from Romano Sp. z o.o. was excluded from the qualifying debt as Stefano had less than 25% of the shares in Romano. Qualifying equity included the cash contribution and the fixed asset contribution within the registered capital. After multiplying qualifying equity by 3 we arrived at the maximum amount of qualifying debt upon which interest is allowed for tax purposes. Qualifying debt was higher and interest from the surplus of qualifying debt was treated as a tax non-deductible cost.

Part (b) for 5 marks asked for the calculation of the correction to be applied in relation to the lease contract when computing Stefano's tax base for 2012. Candidates performed less well on this part. Many candidates correctly calculated the interest part of the leasing contract, which was PLN 50,000, and a number remembered to split this over the five year tax depreciation period. Tax depreciation for 2012 was equal to the machine's value without interest times 14% of the tax depreciation rate adjusted for the 11-month period for which the machine was used.