

Examiner's report

F6 Taxation (ROM)

June 2012

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General Comments

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

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. The best answered were questions 2 and 4, followed by question 3. Questions 5 and 1 were less well answered.

Good answers were presented by many for all five questions. Overall candidates performed well and a large number of candidates are to be congratulated for having prepared well for the examination. Candidates who performed well, carefully read the content and requirements of questions and so were able to answer the narrative elements to questions, and give reasons or examples when asked to do so.

At this sitting improvement was evident in candidates' abilities to organise their answers. Workings were generally shown, although they were difficult to follow at times. Candidates are reminded that each question should be started on a new page, with workings numbered so that it is clear to which question part they relate. Candidates are advised to give careful thought to the layout and organisation of their answers during the examination.

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.
- Not learning lessons from earlier examiner's reports and hence making the same mistakes, especially in relation to personal income tax and value added tax.
- Providing more than the required number of points.
- Illegible handwriting and poor layout of answers.

Specific Comments

Question One

This 30-mark question tested candidates' knowledge of personal income tax, especially on tax on employment income intellectual property income and income received based on a Civil Code contract.

Part (a) required the computation of personal employment income tax. Almost all candidates identified correctly the components of gross revenue and knew how to compute the personal deduction.

Parts (b), (c) and (d) were less well answered, as candidates struggled to differentiate between rules for intellectual property income with rules for income based on Civil Code contracts or rules for authorised persons. Candidates are reminded that the category of income from independent activity includes several types of taxation, depending on the organisational form and income type form; thus the computation of income tax differs if a taxpayer obtains revenue based on:

- a contract for intellectual property rights;
- a contract based on Civil Code;
- a authorised person, declared as such.

Although all the above revenues are included in the category of independent income.

Despite it being a new topic, the rules for reclassifying an activity as dependent, tested in part (e), were known by almost all candidates.

It was surprising to see many candidates failing to compute employment income tax on a monthly basis, in part (f). Candidates should remember that a tax should be computed according to the specific tax rules. Thus, the employment income tax should always be computed on a monthly basis. Otherwise, the computation may be biased, especially as regards personal deduction.

Part (g) was answered correctly by many candidates. Yet, very few of them knew that the interest difference should not be included in the gross taxable revenue.

Question Two

This 25-mark question covered the topic of corporate income tax. Rules on the determination of the tax year, tested in part (a), were known to almost every candidate. The most difficult part of this question proved to be part (b)(i) where candidates should have presented the thin capitalisation rules. Few answers presented all aspects of these rules. Fewer presented structured ideas. Candidates are reminded that a good structure of the answer could gain additional marks. The requirement verb was to “explain”, therefore sufficient detail was needed to score all marks available. Part (b)(ii) was the practical side of the same requirement in part (b)(i): thin capitalisation rules. Many students gave good answers, which proved that they knew these rules, even if they had difficulties in structuring the answer in part (b)(i). The most common mistake was not failing to compute the interest only for the months it was due.

At part (c) many students gave correct answers, proving that corporate income tax is well studied. However, frequent mistakes included:

- Failing to identify revenues from shares revaluation as a non-taxable revenue;
- Considering that tax depreciation should be 50% of the asset value in the first tax year, 2011. The right answer would have been that the tax depreciation is 50% of the asset value in the first year of depreciation;
- Failing to stop depreciation (tax and accounting) when the asset was sold and continuing to compute depreciation until the end of the tax year;
- Not including the difference between net accounting value and tax accounting value as a non-deductible expense, both for the asset and for the shares.

Question Three

Question three was a 15-mark question and it was on value added tax (VAT). Part (a)(i) tested candidates' knowledge on deregistration rules. Many candidates paid little attention to the requirement which was to present a reasoned answer to:

- State when a company may deregister;
- Deadline to submit the application;
- Explaining if Wednesday could have deregistered in 2012

Thus, many candidates gained few marks at this part, the main reason being not answering all the above.

Part (a)(ii) was the most frequently omitted question which confirmed a difficulty of presenting theoretical issues. Although the concepts of taxable supply, exempt with deduction right supply and exempt without deduction right are very basic, many candidates failed to give correct or full answers. Some candidates even confused deductibility of VAT with deductibility of the expense. However, part (a)(iii), which was the application side of part (a)(ii) was well answered by many candidates, which proves that they had knowledge on these concepts.

Part (b) was mainly computational and many candidates gained maximum or almost maximum number of marks. The only difficulty was in computation of pro-rata, but the vast majority of candidates proved that they knew to compute the pro-rata.

Question Four

Question four was a 15-mark question and required mixed knowledge in corporate income tax and on VAT. Many candidates gave good answers in question four.

In part (a) many candidates identified correctly the conditions needed to apply the special scheme of corporate income tax for small companies. Yet, almost no candidate presented the date for fulfilling these conditions, proving once again that candidates fail to carefully read the requirements.

Part (b)(i) was generally well answered. Yet, some candidates confused and computed classical corporate tax (using the 16% tax rate applied to taxable profit) and not the 3% applied to revenue. Those candidates lost precious time making unnecessary calculations which gained no mark. Part (b)(ii) was not so well answered. Few candidates identified that the number of employees is the reason for which Friday SRL must cease to apply the special scheme of corporate income tax. Another frequent mistake was presenting quarter 3 as the moment when Friday SRL should cease to apply the special scheme of corporate income tax, while the correct answer was 1 January 2013.

In part (c) almost all candidates identified the month and the quarter as being tax periods for VAT. Yet, few candidates stated the conditions for applying those tax periods and even fewer identified the semester and the year as alternative tax periods.

Part (d) was the best answered and many candidates gained all marks available.

Question Five

This 15-mark question required mixed knowledge on procedure rules, personal income tax and residence issues. It was surprising to see how many candidates could not give a correct answer for 5(a). Many candidates even were unable to identify that a tax administration should be the competent tax authority and stated that the Lawyer's Bar should be the competent tax authority.

Parts (b), (c) and (d) were the best answered as almost all candidates knew to compute prepayments, to compute employment income tax and to identify that the owner of the office where Mrs Saturday has her activity is involved in tax evasion.

Part (e) and (f) proved more difficult and few candidates gave correct answers.