

Examiner's report

F6 (RUS)

Taxation (Russia)

December 2012

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General Comments

The examination consisted of five compulsory questions, question 1 for 30 marks and question 2 for 25 marks, and a further three questions of 15 marks each.

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 technical knowledge or poor exam technique, as opposed to time pressure.

It should be pointed out that both question 1 and question 2 were answered well with some very outstanding answers. Question 3 could have been answered in a better manner, all parts were answered partially without paying sufficient attention to the scenario data and question requirements. Answers to part c) of this question were either general writing or were missing due to lack of knowledge.

Part (a) of question 4 was answered well by many candidates. Part (b) of question 4 was answered by the majority of candidates but some answers were difficult to identify and mark due to poor presentation technique of this part of answer.

Question 5 part (a) was answered well by many candidates to pick up sufficient marks with good analysis and outcomes.

Part (b) of question 5 was not answered by many candidates. Those who managed to answer this part of the question showed that more marks could be gained if they knew the criteria for dividends exemption better.

Questions 1, 2, 4 and 5(a) were the most popular questions amongst candidates and these questions were generally answered very well. Outstanding answers were presented by well-prepared candidates for both questions 1 and 2 for the full answers and parts of questions 3, 4 and 5.

The overall performance of candidates was quite good.

Workings were generally shown but sometimes it seemed to be difficult to follow them. Still many candidates did not tick the question number box on the top of the answer booklet to indicate which question they were answering. This is especially critical when the answers and workings are provided not in order in the script.

Each question should be started on a new page with clear indication of the question number which is being attempted by the candidate. Furthermore candidates must give more thought to the layout and organisation of their answers, especially when the candidates tried to show on one page simultaneously answers for both part (a) and (b) of question 1 and for question 4.

Overall performance showed that the candidates managed to attempt all questions, didn't have a problem with the time pressure during this exam, most of the questions were answered using correct methodology which allowed the majority of candidates to gain pass marks.

Specific Comments

Question One

This 30-mark question tested candidates' ability to cope with the various aspects of core subjects of both profits tax, taking into account the allocation of direct expenses for a trading company, limited voluntary medical insurance, life insurance, interest expense, impact of exchange rates on forex and value added tax (VAT) applicable for a trading company.

Overall the question was well answered with many outstanding answers. Candidates demonstrated good appreciation of the practical aspects of the scenario described in the question, especially in calculation of direct expenses related to cost of goods sold and transportation expenses. In terms of indirect expenses, candidates scored goods marks for non-linear indirect depreciation, voluntary medical and life insurance, reimbursement of mortgage loan to employees, interest expense, foreign exchange loss and utilisation of previous years losses.

However the performance might be even better if candidates try to be more attentive to the details in scenario and do not make the following mistakes:

Part (a)

- Application of incorrect VAT rate to cost of goods sold in spite of provided data in the scenario.
- Calculating non-linear depreciation for computers instead of one-off write-off for the fixed assets with the value less than 40,000 RR per item.
- Forgetting the threshold for social insurance contributions in spite of the fact that this data is available in the rates and allowance sheet.
- Forgetting correct months pro-rating for voluntary life insurance.
- Non-correct interest rate for calculation deductible interest applicable for 4th quarter

Part (b)

- Incorrect VAT rate application to both sales and prepayments for goods.
- Forgetting application of percentage for VAT invoices received.
- Application of VAT to all types of insurance.

The overall performance to this question was very good with several outstanding answers.

Question Two

This 25-mark question covered the topics of taxable and deductible items for personal income tax, including application of different deductions.

Again, the overall performance to this question was very good with several outstanding answers.

The most common mistakes included:

In part (a)(i)

- Annual April bonus was not included in taxable income for personal income tax.
- Medical voluntary insurance had not been shown as exempted item based on scenario data.
- Lack of imputed interest income calculation or poor technique in calculation such as forgetting 2/3 in the formula.
- Calculating personal income tax liability without distinguishing between the liability withheld at source by the employer and the final settlement for the year 2012.

In part (a)(ii)

- Not including educational expenses for sister into social deductions.
- Calculating 35% tax due in spite of its withholding by employer.
- Calculating property allowance and interest for plot of land acquisition in this part.

In part (a)(iii)

- Incorrect children allowance calculation by forgetting correct number of children or relevant months.
- Forgetting social deduction in terms of voluntary medical insurance.
- Forgetting lack of deduction related to education of elder son in case of claiming total deduction by Denis.

In part (b) the personal income tax liability of Denis withheld at source in the case of entitlement to the property allowance:

- Non-application of 50% share to property allowance.
- Incorrect days application for first interest instalment.

Question Three

Question 3 examined VAT issues.

Part (a) examined output and input VAT related to self-constructed warehouse.

The most typical mistakes were the following:

- Lack of calculating output VAT on constructed premises.
- Lack of input VAT recovered which was accrued on the cost of premises.
- No claw-back of VAT in Q4 recovered in Q3.
- Forgetting % application in terms of VAT on services for subcontractors in Q4.

Part (b) reviewed candidates' VAT knowledge in the case of summing difference

This part was answered well for those who picked up this part of question clearly indicating the amount of the summing difference and no change in the VAT input position.

Part (c) examined VAT terms in the case of a desk tax audit for quarterly tax return.

The answer to this part of question 3 can be categorised as follows:

- well prepared candidates answer it very well without any problem;
- some other candidates wrote something general and irrelevant to the point raised;
- the remaining candidates missed this part due to lack of knowledge.

It should be noted that overall Question 3 was quite a straightforward question which required technical knowledge on all the above issues.

In summary, question 3 was answered based on the residual principle by candidates, attempting those parts where they seemed to have some knowledge.

Question Four

Part (a) of this question focused on the personal income tax liability for an employee (Svetlana) receiving different types of income and benefits from both her employer and 3rd parties, including income as a result of insurance. The majority of answers were quite good for this part of the question, however the following mistakes were made by some candidates:

- Gross salary for January was not calculated completely.
- Contributions to the non-state pension fund was not recognised as social deduction.
- Income as a result of short-term life insurance was calculated only partly.
- Lack of support payment allowance for material aid.

Part (b)(i) of this question reviewed the impact on social insurance contributions in respect of benefits received from the employer. It should be pointed out that this part of question was answered in a good manner by many well prepared candidates.

However candidates should pay more attention to the layout and presentation of their answers provided. It was noticed that several candidates provided their answer to this part of question together with their answer to part (a) of this question without clear identification and reference to part (b) which creates additional difficulty during marking.

The overall performance of this question was good.

Question Five

Question 5 consisted of 2 parts.



Part (a) of the question focused on this capitalisation rules issue and the tax effect of each option available.

It should be pointed out that candidates managed to recognise controlled and non-controlled loans, calculate correctly net assets, thin capitalisation ratio, maximum limit of deduction, dividend taxed at 15% and make a correct conclusion regarding the most tax efficient option. Therefore I should say that this part of question was answered in a good manner by well-prepared candidates.

Part (b) of the question reviewed the tax on dividend that should be withheld in the case of dividend payments to different owners, including Russian and foreign companies.

Different tax rates were recognised by the candidates, however 0% rate application to dividends to OOO Taxa were clearly identified only by few well-prepared candidates

This part of the question 5 was answered satisfactory.