

# Examiner's report

F6 Taxation (RUS)

June 2013



## General Comments

The examination consisted of five compulsory questions.

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.

Both questions 1 and 2 were performed well with some very outstanding answers.

Question 3 was answered well only in (a) iii), partly in (b), all other parts of this question were either omitted or answered without paying sufficient attention to the scenario given data and question requirements.

Part (a) of question 4 was answered well by many candidates. Part (b) of question 4 showed lack of attention to scenario data in the answers given.

Question 5 part (a) was answered well by many candidates however there were lots of mistakes in tax base definition for property tax purposes probably due to lack of knowledge.

Part b of question 5 was not answered by many candidates. In fact it was easy part of the question and think this could be possible only due to lack of knowledge.

Part c) was answered in a good manner by the candidates who attempted this part of question.

In general questions 1, 2, 4 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 partly were received for 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. There is an improvement as compared to previous exams but still many candidates forgot ticking 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 part a) of 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 calculation of direct and indirect expenses for production company, including amortization of trademark, depreciation, employees benefits, social insurance contributions, interest expense, impact of exchange rates on forex and VAT applicable for production 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 depreciation, salaries and social insurance contributions. In terms of indirect expenses, candidates scored good marks for voluntary medical and personal insurance, reimbursement of mortgage loan to employees, business entertainment expenses, interest expense, and foreign exchange loss.

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)

- Forgetting the application of relevant % to direct materials and direct salaries
- Incorrect formula for direct depreciation calculation
- Application of incorrect term for amortization of trademark
- Application of VAT for voluntary medical insurance and other types of insurance
- Labour costs for deductible part of business entertainment expenses were not formed correctly
- Air tickets and hotel expenses were included into deductible part of business entertainment expenses
- Interest expenses were calculated as of 31 December ignoring monthly calculation

#### Part (b)

- Application of VAT to all types of insurance
- Incorrect VAT rate application to business entertainment expenses
- Input VAT for recovery is shown for non-deductible part of business entertainment expenses

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.

The most common mistakes included:

#### In part (a)

- Children allowance was calculated incorrectly ignoring the fact of exceeding 280,000 RR in January
- No % allocation to birthday gift
- Social deduction in respect to payments to non-pension fund was not included in calculation
- Medical expenses for surgery operation of his father was not exempted from taxation
- Lack of explanation in terms of no corporate loan interest for housing incentive
- Incorrect bank interest calculation in terms of bank loan portion without excluding December

- Calculating imputed interest income in terms of both bank and corporate loans

In part (b)

- Either educational expenses for his brother or voluntary insurance for his wife were missing in social deductions
- Property deduction in terms of selling summer house was shown in part a)
- Housing incentive including interest was showing in this point without paying attention to scenario given

In part (c)

- Incorrect amount of children allowance
- Including gift from her husband into taxable base
- Including gifts in kind into donations deducted from taxable base
- Tax withheld for Irina was ignored in final tax liability calculations

### Question Three

Question 3 examined VAT issues.

Part (a) examined both output and input VAT related to export transactions in case of confirmed and unconfirmed export situations.

The most typical mistakes were the following in subpart a i):

- Incorrect exchange rate application to revenue recognition in a i)
- Lack of claw-back of VAT previously recorded on equipment
- Incorrect days application for late interest charges, ignoring instalment dates

Part (a) (ii) and (iii) were answered better than the first part of this question. However, many candidates ignored question 3 or put their answers based on residual principle.

Part (c) examined VAT issues related to sell of receivables: well prepared candidates answered this part well, however many candidates omitted this part due to lack of technical knowledge.

It should be noted that overall Question 3 was quite straightforward question which required technical knowledge on export transactions and selling or writing off customers debts.

### Question Four

Part (a) of this question focused on the personal income tax liability for Alena who works under combined scheme during the year: based on both labour agreement and author's agreement through the year.

A vast number of answers were quite good for this part of question; however the following mistakes were made by the candidates:

- Professional deduction was not applied correctly. On the contrary, actual expenses were applied with the lack or strange explanation. Some candidates even shown 2 different options without choosing the final correct answer
- Voluntary medical insurance for Alena has been included into taxable base for social insurance contributions whereas unused vacation was excluded
- Incorrect SIC rate application to income under author's agreement

Part (b) of this question reviewed the personal income tax to be withheld from the dividend income

Well prepared candidates managed to answer correctly to this part of question with the few following mistakes:

- Lack of deduction of dividends received from Guliver
- Dividends paid to non-residents were treated as deductible ones

The overall performance of this question was good.

#### **Question Five**

Question 5 consisted of 3 parts.

Part (a) of the question focused on property tax question and was quite a straightforward one.

Candidate managed to calculate relevant tax base for quarterly tax payment and apply correct % in general, however there were several poor answers showing a significant lack of knowledge in the property tax

Part (b) of the question reviewed theoretical knowledge on property tax related to separate subdivision and building subject to certain criteria set in the law. There were several good answers.

Part (c) of this question was answered well by recognition controlled loans, calculation correctly net assets position, thin capitalization ratio and explanation of deductible interest

Among all other parts of this question part (c) was the best answered.