

Examiner's report

F6 Taxation (RUS)

June 2014



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.

Q1 and Q2 (a),(b) and (d) were answered well by the majority of candidates. Questions 3 (b) (ii) and (c) and 4 (a) appeared to be the most challenging questions for candidates. Several candidates did not attempt these parts of the question or answered them without paying sufficient attention to the information given in the scenario and the question requirements. However, notwithstanding these comments, many candidates performed well on all questions in the paper.

Part (b) of question 4 was answered well by many candidates with satisfactory answers provided in respect of both the personal income tax and social insurance contributions calculations.

Question 5 was answered well by many candidates, especially part (b). In part (a) candidates could have gained more marks by giving more careful attention to the information in the scenario.

The overall performance of candidates in this paper was satisfactory.

Workings were generally shown but sometimes these were difficult to follow. Candidates are reminded that it is important that they clearly indicate which question they are answering, especially when questions are attempted in a different order than they appear in the question paper.

Each question should be started on a new page with a 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. Candidates should not be presenting their answers to more than one question on the same page.

The majority of candidates employed a methodical approach to their calculations, which assisted them in gaining marks.

Specific Comments

Question One

This 30 mark question tested candidates' ability to cope with the various aspects of the core topics of both profits tax and value added tax (VAT), taking into account the calculation of direct and indirect expenses for a trading company, including social insurance contributions, depreciation, proceeds from fixed asset sale, voluntary insurance for employees, advertising expenses, penalty, interest expense, impact of exchange rates on forex and VAT applicable.

Overall, the question was well answered by the majority of candidates. Candidates demonstrated a good appreciation of the practical aspects of the scenario described in the question, especially in calculation of direct expenses related to transportation, non-linear depreciation of cars, voluntary medical and personal insurance, advertising expenses, interest expense and the foreign exchange loss.

However, candidates' performance could be further improved if they paid greater attention to the detailed information given in the scenario and avoided the following common mistakes:

Part (a)

- Forgetting to exclude the VAT for both the cost of goods and transportation expenses
- Applying the incorrect number of months to the formula for non-linear depreciation
- Omitting the 30% write-off applicable to cars
- Forgetting to apply the 10% rate to amounts exceeding the threshold for social insurance contributions
- Non-inclusion of insurance costs when calculating the restriction of the reimbursement of mortgage loan
- Forgetting to exclude the VAT for advertising costs and promotion gift
- Failing to include penalties and interest charges under the court decision in non-sale income
- Applying the incorrect limit for deductible interest for currency loans
- Incorrect offset of the tax losses after applying the 20% rate of tax

Part (b)

Again, the answers provided were generally satisfactory but there were a number of errors commonly made including:

- Omitting the VAT on the free of charge promo distribution
- Omitting the VAT on the sale of the car
- Applying the incorrect VAT rate to promotion gifts

Question Two

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

The overall performance in this question was satisfactory. However, a number of common mistakes were encountered as follows:

In part (a)

- Medical expenses for Nikolay's grandfather were not correctly treated as a non-taxable item
- Leadership training was incorrectly shown as a taxable item
- The housing allowance was not calculated based on the relevant proportions mentioned in the scenario
- Incorrect corporate loan interest allocation for deduction
- The calculation of imputed interest income on corporate loan ignored the information given in the scenario

In part (b)

- Failing to take a deduction for the educational expenses of Nikolay's brother

In part (d)

- Incorrect calculation of the children allowance (ignoring the number of children and number of months)
- Non-application of the most tax efficient option in terms of actual expenses incurred
- Incorrect non-inclusion of interest in the housing allowance
- Incorrect proportion of housing allowance claimed (due to failure to read the information in the scenario).

Question Three

This 15 mark question examined VAT issues in respect of confirmed and unconfirmed export situations.

Part (a) examined a situation involving confirmed exports and was arguably the most straightforward part of the question. Nevertheless the following mistakes were commonly encountered:

- Use of an incorrect exchange rate when calculating the output VAT
- Use of the incorrect VAT rate when calculating the input VAT on services

Part (b) consisted of two additional subparts examining a change in the status of an unconfirmed export into a confirmed one in different quarters. It also examined late interest charges in the case of a missed deadline for payment.

The most common mistakes encountered were in both parts (i) and (ii) were as follows:

- Use of an incorrect exchange rate when calculating the output VAT for both Q2 and Q4
- Forgetting to include the claw-back of Q2 output VAT in Q4
- Forgetting the principle of payment of VAT in three instalments
- Forgetting the application of 1/300 when calculating the late interest charges
- Applying the incorrect CBR rate when calculating the late interest charges
- Using the incorrect number of days when calculating the late interest charges

A number of candidates did not provide any answer to question (b) (ii).

A lack of technical knowledge was generally evident from the answers to part (c) and candidates are reminded of the importance of reading both the scenario and questions attentively.

Question Four

Part (a) of this question focused on the personal income tax implications of a share benefit received under an employment scheme as well as sales of shares and related tax planning aspects.

Many candidates struggled with this part of the question. However, most candidates were able to identify the actual acquisition price and market price of the shares.

The most common mistakes encountered were as follows:

- Failing to discount the reference price by 20% due to lack of technical knowledge
- Incorrect rate of personal income tax (PIT) applied to the employment benefit
- Ignoring the PIT withheld on acquisition
- Incorrect rate of PIT applied to the income on the sale of the shares
- Failing to mention the significance of continuous ownership in part (iii)
- No reference to the fact that shares are Russian shares in part (iii).

Part (b) and part (c) of question four were generally well answered.

Part (b) of this question involved the calculation of both personal income tax and social insurance contributions (SIC) for an employee who had been awarded dividends through conversion of a portion of his salary. This part

of the question was generally tackled very well. The most common (minor) mistake encountered here was an incorrect SIC calculation in subpart (ii) due to candidates ignoring the impact of the first half of 2014.

In part (c) candidates were asked to state the relevant deadlines for both filing a personal income tax return and paying the additional tax due. Most candidates did not encounter any issues in providing a correct answer here.

Question Five

This question consisted of two parts and examined withholding tax on dividends in different scenarios in part (a) and the application of the thin capitalization rules in part (b). Overall, performance on this question was good, with especially strong answers to part (a).

In part (a) the majority of candidates managed to apply the correct ownership share and tax rate for the different options provided.

Notwithstanding this, the following common mistakes were encountered:

- Failing to apply the 0% tax in the case of Melan
- Ignoring the difference between dividends accrued to Russian shareholders and dividends received

In part (b), candidates generally provided satisfactory answers to subpart (i). The majority of candidates correctly used the information provided in the scenario and calculated the net assets position, comparing the current interest rate with the CBR refinancing rate and performing the interest calculation, capital ratio calculation and calculating the deductible and non-deductible interest. As a result, such candidates were able to calculate the correct withholding tax on the deemed dividends.

However, a few candidates did make a minor mistake by using the incorrect number of calendar days in their interest calculation.

Part (ii) of the question examined candidates' understanding of when thin capitalization rules should not be applied and did not require any calculations. Most candidates encountered no issue with this part of the question.