

Think Ahead **ACCA**

F6
Taxation



Format

New format since September 2016 session

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New format since September 2016 session.

Candidates' recent performance

- Performance in September and December 2016 was better than prior exams
- Performance in March 2017 lowest in several years
- Common issues:
 - Preparing full computations when answer can be found by working at the margin
 - Writing too much for the number of marks available
 - Failing to read the requirement
 - Too much rote learning
 - Not knowing how to approach some computational questions

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In September and December 2016 performance was up compared to prior sessions.

However performance not as good in March 2017, and was lowest pass rates in some years.

Some common issues in March 2017 were:

- Preparing full computations when the answer can be calculated more simply by working at the margin
- Writing too much for the number of marks available
- Failing to read the requirement and providing calculations for things the requirement specifically said to ignore (such as NICs)
- Too much rote learning
- Not knowing how to approach some computational questions leading to very long-winded answers that scored few marks

Section A

- 15 two-mark objective test questions (OT)
- For paper-based exams, all are multiple choice questions (MCQ)
- Not all questions take the same amount of time

Section A

15 two-mark objective test questions.

For PBE, each question has a choice from four alternative answers.

Not all questions take the same amount of time, but this balances out over the Section as a whole.

Example 1

Aim to eliminate one or two options

Taxpayer did not submit tax return by due date. What can HMRC do to collect the tax owing?

- Start a compliance check enquiry into the return
- Make a determination
- Raise a discovery assessment
- Offer an internal review

Example 1

Aim to eliminate one or two options if possible.

Taxpayer did not submit tax return by due date. What can HMRC do to collect the tax owing?

- A** Start a compliance check enquiry into the return
- B** Make a determination
- C** Raise a discovery assessment
- D** Offer an internal review

Compliance check relates to a submitted return, and this is implied by the wording.

An internal review can easily be eliminated (very few candidates choose this option).

Around a quarter of candidates opted for option B.

Take out option A and many more candidates could have achieved an additional two marks with a bit of common sense.

Example 2

Interest payable on late 2015-16 self-assessment second POA

Due 31 July 2017	£7,800	
Reduced to	£6,000	(paid 30 September 2016)
Actual	Higher	(paid on time - 31 January 2017)

$$£7,800 \times 3\% \times 2/12$$

$$£1,800 \times 3\% \times 4/12$$

Example 2

Some questions need a careful approach, so best to reduce to the essential details.

Interest payable on late 2015-16 self-assessment second payment on account

Due 31 July 2017	£7,800	
Reduced to	£6,000	(paid 30 September 2016)
Actual	Higher	(paid on time - 31 January 2017)

$$£7,800 \times 3\% \times 2/12$$

$$£1,800 \times 3\% \times 4/12$$

Section B

- Three 10-mark OT Case questions - each comprising five two-mark OTs

Common scenario

Questions are based around a common scenario, with some using the same information:

Sales information - VAT registration
- VAT payable

Best to deal with each case as a whole

Questions are based around a common scenario, with some using the same information. For example:

Sales information - VAT registration
- VAT payable

Best to deal with each case as a whole. Otherwise, the same information will have to be read more than once.

Features of OT Cases

Some aspect of the answer might be given

	£
Ordinary shares in Small Ltd	98,000
Ordinary shares in Large plc	44,000
Annual exempt amount	(11,100)
CGT: 10,000 at 10%	1,000
120,900 at 20%	24,180

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Each OT question attached to the scenario is written to be independent of the others. Some aspect of the answer might be given to avoid overlap between questions. For example:

A taxpayer's CGT liability is:

	£
Ordinary shares in Small Ltd	98,000
Ordinary shares in Large plc	44,000
Annual exempt amount	(11,100)
	<hr/>
	130,900
	<hr/>
CGT: 10,000 at 10%	1,000
120,900 at 20%	24,180
	<hr/>
	25,180
	<hr/>

Questions can then look backwards and forward

Backwards

- Entrepreneurs' relief
- Small Ltd - Cost figure
- Large plc – Proceeds figure

Forwards

- Delay the disposal of Large plc – Due date
- Delay the disposal of Large plc – Tax saving

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Questions can then look backwards:

Entrepreneurs' relief
Small Ltd - Cost figure
Large plc – Proceeds figure

And forwards:

Delay the disposal of Large plc – Due date
Delay the disposal of Large plc – Tax saving

Section C

- One 10-mark question (any area)
- Two 15-mark questions (focusing on income tax and corporation tax)

Higher skills

Expect to see questions which focus on higher skills

- Typically, will cover more than one syllabus area or more than one tax
- Bridging the gap between F6 and P6
- Clear guidance as to which taxes need to be considered

Higher skills

Expect to see questions which focus on higher skills.

Typically, such a question will cover more than one syllabus area or more than one tax - bridging the gap between F6 and P6.

Where a question covers more than one tax, there will be clear guidance as to which taxes need to be considered.

Higher skills article

- CGT and IHT within the same question - weighing potential IHT saving of a lifetime gift against the immediate CGT cost
- The tax implications of a number of investment options
- Tax planning opportunities available to married couples

A higher skills article has been published which includes:

Examining CGT and IHT within the same question. For example, weighing potential IHT saving of a lifetime gift against the immediate CGT cost.

The tax implications of a number of investment options.

Tax planning opportunities available to married couples.

Long worked example

Tax liabilities on a self-employed basis and three alternative approaches to extracting profits from a limited company

The following scenarios could be examined based on what is covered:

- New business deciding whether to operate as a sole trader or as a limited company
- Existing business deciding whether to incorporate
- Deciding how much profits to extract from a limited company as director's remuneration compared with taking dividends

But in particular, a long worked example calculating tax liabilities on a self-employed basis, and then considering three alternative approaches to extracting profits from a limited company. The following scenarios could be examined based on what is covered:

New business deciding whether to operate as a sole trader or as a limited company.

Existing business deciding whether to incorporate.

Deciding how much profits to extract from a limited company as director's remuneration compared with taking dividends.

Some aspects of an answer will often be given

- The tax and NIC cost as a sole trader, with the requirement to calculate the cost of operating as a limited company
- Alternatively, some of the separate tax or NIC costs

Important to appreciate which figures have been given

Some aspects of an answer will often be given.

The tax and NIC cost as a sole trader, with the requirement to calculate the cost of operating as a limited company.

Alternatively, some of the separate tax or NIC costs.

It is very important to appreciate which figures have been given.

Interactions can cause problems

- Director's remuneration reduces a company's profits, but is then taxed as the director's income
- In contrast, dividends do not affect the calculation of the company's corporation tax liability

The interactions involved can often cause problems.

Director's remuneration reduces a company's profits, but is then taxed as the director's income.

In contrast, dividends do not affect the calculation of the company's corporation tax liability.

Basic principles

- If all of a company's profits are paid out as director's remuneration, then there will not be any corporation liability
- If profits are only drawn as dividends, then there will be no NICs

Some basic principles:

If all of a company's profits are paid out as director's remuneration, then there will not be any corporation liability.

If profits are only drawn as dividends, then there will be no NICs.

Working at the margin

- Taxpayer has a trading profit of £100,000
- Spouse has no income
- Tax saving from forming a 75%/25% partnership?

Working at the margin

Taxpayer has a trading profit of £100,000

Spouse has no income

Tax saving from forming a 75%/25% partnership?

Saving

	£
Income tax (25,000 at 40%)	10,000
Class 4 NIC (25,000 at 2%)	500

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The taxpayer will save:

	£
Income tax saving (25,000 at 40%)	10,000
Class 4 NIC saving (25,000 at 2%)	500

Spouse

	£
Income tax ((25,000 – 11,000) at 20%)	2,800
Class 2 NIC (52 x 2.80)	146
Class 4 NIC ((25,000 - 8,060) at 9%)	1,525

For the spouse, there is again no need for full computations:

	£
Income tax ((25,000 – 11,000) at 20%)	2,800
Class 2 NIC (52 x 2.80)	146
Class 4 NIC ((25,000 - 8,060) at 9%)	1,525

Two or three pages of workings wastes a great deal of time, and much more difficult to keep track of the figures.

Available marks

Very good indication as to the length of answer expected

- **3 marks** - Explain the meaning of each of the six badges of trade. Obviously a ½ mark per badge, so just one short sentence for each
- **1 mark** - On first death, estate left to spouse. Would there be any IHT saving if the will included a chargeable legacy of £325,000? Given the transferable NRB, the answer is no

Available marks

The available marks are a very good indication as to the length of answer expected. For example:

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1 mark - On first death, estate left to spouse. Would there be any IHT saving if the will included a chargeable legacy of £325,000? Given the transferable NRB, the answer is no.

Be careful, precise and use common sense

Eight items of capital expenditure - which qualify as plant and machinery?

- **Common sense** - A 50:50 choice so should always answer all eight
- **Precise** – Often difficult to know whether answering yes or no
- **Careful** – The descriptions and the amounts were sometimes mixed up, making it impossible to know which item was being considered

Be careful, precise and use common sense

Eight items of capital expenditure - which qualify as plant and machinery?

Common sense - A 50:50 choice so should always answer all eight.

Precise – Often difficult to know whether answering yes or no. Obvious approach is to list the eight items and then just write qualify or not qualify, or to have two columns – not a written answer.

Careful – The descriptions and the amounts were sometimes mixed up, making it impossible to know which item was being considered.

Black and white

There are no ifs or buts at F6

When asked to calculate a self-assessment balancing payment, many students:

- Calculated NICS despite being told to ignore - there would have been guidance if such a calculation was required
- Tried to calculate prior year payments on account despite this tax liability being collected under PAYE

Black and white

There are no ifs or buts at F6.

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Calculated NICS despite being told to ignore - there would have been guidance if such a calculation was required.

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Syllabus change

Accrued income scheme added to the syllabus

Any question will be confined to gilts

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FA 2016 – Savings income

- Paid gross
- Nil rate band introduced
- Will be quite clear as to which tax rate is applicable

Finance Act 2016

Savings income

Paid gross.

Nil rate band introduced.

Will be quite clear as to which tax rate is applicable.

FA 2016 – Dividends

- Treated as paid gross
- Nil rate band
- Definition of profits for CT quarterly instalment payment purposes

Dividends

Treated as paid gross.

Nil rate band.

Definition of profits for corporation tax quarterly instalment payment purposes - taxable total profits plus dividend income from non-group companies.

FA 2016 - Implications

- The nil rate bands complicate tax planning for married couples and couples in civil partnerships
- Many of the tax advantages of ISAs have been effectively removed

Implications

The nil rate bands complicate tax planning for married couples and couples in civil partnerships.

Many of the tax advantages of ISAs have been effectively removed.

FA 2016 – Property income

- 10% wear and tear allowance abolished
- Replaced by replacement furniture relief

Property income

10% wear and tear allowance abolished.

Replaced by replacement furniture relief.

FA 2016 – Tapered annual allowance

- Normal annual allowance of £40,000 tapered down to a minimum of £10,000
- Income limit and minimum allowance shown in tax rates and allowances

Tapered annual allowance

The normal annual allowance of £40,000 can be tapered down to a minimum of £10,000.

The income limit and the minimum allowance shown in tax rates and allowances.

FA 2016 – Other changes

- P11D distinction removed
- Payrolling
- Annual investment allowance - £200,000
- Employment allowance restriction
- Investors' relief

Other changes

Distinction between lower-paid employees and P11D employees removed.

Payrolling of taxable benefits.

Only current annual investment allowance of £200,000 is examinable.

Employment allowance no longer available where a director is the sole employee.

Investors' relief - just need to be aware of the tax advantages and qualifying conditions.

Articles

- Finance Act
- Other articles updated - include OTs and OT Case questions
- Higher skills article

Articles

Finance Act article.

Other articles updated to Finance Act 2016 - these include OTs, and the CGT, IHT, VAT and benefits articles each include an OT Case question.

Higher skills article.

CBE

- F6 questions are ideally suited to the use of spreadsheets
- CBE and paper exams produced and marked in the same way
- Support resources available for tutors and candidates

CBE

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CBE and paper exams are produced and marked in the same way.

Support resources are available for tutors, and we would recommend that you encourage candidates to use them.



Questions

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