



# Examiners' report

F6 Taxation (IRL)  
June 2008

## Introduction

Overall, the standard of the scripts was disappointing. It was clear that a significant number of students had not prepared sufficiently for this Paper. In addition, it was noted that a number of candidates did not properly read what was asked in the questions.

## Question 1

This question tested candidates' income tax computational abilities in a partnership situation, in particular, where there is a change in profit sharing ratios and the introduction and departure of an individual partner. In addition, it tested knowledge of the income tax implications arising from a change of year end.

The standard of the answers to this question was reasonable.

The main areas of difficulty in the attempts at part (a) (i) were as follows:

- The commencement rules for Mary – in particular for year 2.
- Calculating the profits for Paul for the penultimate year.
- Incorrect apportionment of the profits, in particular, where there was a change in profit sharing ratios of the partners.

The main areas of difficulty in the attempts at part (a) (ii) were as follows:

- Incorrectly computing Section 23 relief.
- The maintenance payment was €4,000 per month, not per annum. It was noticeable that some candidates allowed the maintenance payment as a tax credit.
- Not giving the increased standard rate band to a separated person with dependant children.
- Not realising that, due to his age, PRSI did not apply to Peter.

The attempts at part (b) were reasonable. However, it was noticeable that a number of candidates did not make the key point that, given that the profits for the 14 month period ended 30 June 2008 were exceptionally large, it is likely that the Schedule D Case II assessment for 2007 would be increased.

## Question 2

This question tested candidates' corporation tax computational abilities, in particular, capital allowances, add-backs for motor expenses and other items, as well as knowledge of the favourable holding company regime and the implications arising from a change of accounting year end.

The standard of the answers to this question was disappointing.

The main areas of difficulties in the attempts at part (a) (i) were as follows:

- Incorrect add-back for legal expenses.
- Incorrect calculation of the capital allowances on the plant and equipment.
- Incorrect calculation of the industrial buildings allowance on the second-hand industrial building.
- Incorrect calculation of the add-back for motor expenses.
- Unable to recognise the favourable holding company relief in respect of the disposal of the shareholding in A Ltd.

The attempts at part (a) (ii) were very disappointing. A surprisingly high number of candidates seemed to think that the due dates are the same as for a December year end. It was also disappointing that some candidates mixed up the payment and filing dates with those for income tax.

In the attempts at part (b) a number of candidates did not identify the key points of two accounting periods and the resultant payment and filing dates implications.

### **Question 3**

This question tested candidates' capital gains tax (CGT) computational abilities as well as knowledge of CGT retirement and principal private residence (PPR) reliefs; non-taxability of compensation for personal injuries and restriction of losses arising from the disposal of development land.

The standard of the answers to this question was reasonable.

The main areas of difficulties were as follows:

- Not recognising that retirement relief applied to the transfer of the out-farm to the son.
- Not realising that PPR applied in respect of the disposal of part of the garden surrounding the residence. A number of candidates seemed to think that capital gains tax applied because the garden was the subject of a compulsory purchase order.
- Also, a number of candidates incorrectly thought that one could only have a no gain/no loss situation in relation to the disposal of the development land/site.
- Not recognising that the tractor was not exempt from capital gains tax as it was used for the purposes of the farming and capital allowances had been claimed on it.
- A number of candidates mixed up the payment dates with those for income tax.

### **Question 4**

This question tested candidates' knowledge of a number of VAT issues including: particulars which must be contained in a VAT invoice; entitlement to a credit for VAT suffered; when a provider of a taxable service must issue an invoice; transfer of undertaking relief and the role of the European Court of Justice in VAT matters.

The answers to this question were satisfactory.

The main areas of difficulty were in the attempts at part (b), part (d) and part (e).

In part (b), a number of students did not answer the question asked and did not recognise that where a purchaser of the goods or services did not have a valid VAT invoice then they are not in a position to obtain a VAT credit/refund.

In part (d), a number of students were of the mistaken opinion that the transfer of undertaking relief was not applicable because the vendor had ceased trading.

In part (e), a number of students were of the mistaken belief that the European Court of Justice is not the ultimate arbiter on VAT matters.

### **Question 5**

This question tested candidates' analytical abilities re the issue whether gains arising from the sale(s) of houses were subject to income tax or capital gains tax. In addition, it tested knowledge of the RCT rules.

The standard of the answers to this question was very disappointing. It was noticeable that a significant number of candidates displayed poor analytical abilities. This was evident in the attempts at part (a) where some



candidates incorrectly thought that Richard could not be regarded as carrying on a trade as he was a PAYE taxpayer.

In the attempts at part (c) a significant number of candidates did not realise that Richard would be regarded as a principal for RCT purposes.