

Examiner's report

F6 Taxation (IRL)

December 2010

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General Comments

This examination paper consisted of five compulsory questions. The first two questions carried 25 and 30 marks respectively, question three carried 20 marks, question four 15 marks while question five carried ten marks. Almost all candidates attempted all five questions and all parts of questions. There did not seem to be a problem with time management.

The overall performance in this paper was satisfactory. Almost all questions had parts that were answered well and parts where the answers were weaker. Candidates scored well in questions four and five. The standard of answering in questions one and two was not as high as expected.

Performance of candidates could improve if they could:

- Familiarise themselves with all topics covered in the syllabus
- Lay out their workings in a more comprehensive manner
- Candidates repeating should take time to learn the changes brought in by successive Finance Acts.

Specific Comments

Question One

- (a) (i) and (ii) This question tested candidates' knowledge on the home carers tax credit. Generally candidates had a vague knowledge of when the credit was available, but overall this part of the question was not well answered.
- (b) (i) This part of the question was well answered. Candidates should be aware that where there is a Case I or II loss then that income is stated as Nil and that loss relief will be given as S381 against all income. Candidates should also be aware that the loss may or may not be augmented using capital allowances at the taxpayers discretion.
- Nursing home expenses are still relieved at marginal rate of tax while other medical expenses are at the standard rate, many candidates did not treat these expenses correctly.
- (c) The PAYE area is on the syllabus but has not been examined recently. It is important that candidates be aware of the operation of this area as it is very relevant to people in practice.
- (d) This question was a straight forward benefit in kind problem and was generally answered well by candidates.

Question Two

(a) This question tested candidates' corporation tax computational abilities, in particular, capital allowances and add-backs for disallowed expenses. The company in question has prepared accounts for a 15 month period, this required the candidates to apportion the adjusted loss between two accounting periods, the first of 12 months and the second for three months. Most candidates recognised the two periods correctly but unfortunately for some they divided the periods before they did the addbacks and deductions and gave themselves a lot of computations to do. Students were not penalised for this but it is very time consuming for them to do this and it would be better if they followed the more practiced approach as it is in the recommended solution. Students scored well on identifying the addbacks.

The capital allowance computation was generally well answered, however the division of the other income between the two periods was not well done. The net rental income calculation required the candidate to realise that some of the interest would not be allowed as it was pre-letting, also many students did not divide the income on the basis of the months that it existed for but incorrectly used 12 and three months.

(b) This part of the question was not well answered. I felt that some of the problems arose from the approach taken by some students to the addbacks in the first part of the question and the incorrect calculations of other income between the two periods.

Question Three

(a) This question tested candidates' capital gains tax (CGT) computational abilities with respect to share disposals and the disposal of business assets with retirement relief.

1. Did not cause any problems for candidates generally, it was recognised that indexation would not apply.
2. Most candidates applied the FIFO rules for the share disposal, this has been examined over the past few papers. However most candidates missed the fact that anti avoidance rules, commonly known as the "Bed and Breakfast" rule should have been applied in this instance.
3. Candidates did well here and most recognised that retirement relief was available one hundred per cent on the disposal of the business assets to the disponent's daughter. There was no need for the candidates to calculate the relevant gains as they were exempt and the candidates could have saved themselves time by not doing so. On the disposal of the assets to an unconnected person marginal relief was available, this was recognised by most and calculated correctly.

The question asked that where a relief was available that resulted in no capital gains tax the candidates were required to state the qualifying conditions. This was done to varying degrees by candidates, I would like to emphasise the need to be precise. It is better to state the exact condition e.g. where someone has reached the age of 55 then relief is available, rather than, they will get the relief as they are aged 60.

(b) The answers were either good or poor. The question was specific and those who knew the conditions scored well.

Question Four

(a) Many correctly identified three or four factors for the place of management and control of a company in Ireland. A number discussed permanent establishment and the holding of a branch versus subsidiary. Very few identified that all companies (with certain exceptions) incorporated in Ireland on or after 11 February 1999 are considered to be Irish tax resident. As a consequence very few identified the exceptions to this rule.

Part (b) was generally well answered with most identifying that French Trading income should not be taxed in Ireland while Irish trading income and the profit on the sale of investment should be taxed here. Some, however, concluded that the Irish trading income would be subject to Corporation Tax and the profits subject to CGT but did not identify in which country the tax would arise. Many identified that the dividends need not be taxed.

Part (c) was also well answered. However, a few outlined the payment rules for a small company as opposed to a large company, others outlined the payment rules for personal income tax.

Question Five

This question was in general very well answered. Candidates knew how to apply the cash basis of accounting. The value added tax (VAT) on purchases was correctly treated. A small number of candidates did not recognise that the figures given were VAT inclusive and therefore required adjustment. In all VAT questions students should always check as to whether they are dealing with figures that are VAT inclusive or exclusive.

(b) and (c) were well answered.