



Examiners' report

F6 Taxation (UK)

June 2008

General comments

This was a reasonable performance. The main problem was caused by question four, which many candidates found surprisingly difficult. This question was usually left until last, and it was often obvious that insufficient time had been left to attempt it properly. It was particularly disappointing that those aspects of the question that were covered in the Finance Act article in the student accountant were not particularly well answered.

Question 1

In part (a) candidates were required to calculate a taxpayer's tax adjusted trading profit. Then in part (b) candidates had to calculate the respective income tax liabilities of the taxpayer and his spouse. The taxpayer's spouse was employed. Part (c) required candidates to explain to the couple how their overall income tax liability could be reduced if they were to (1) transfer a joint building society deposit account into individual savings accounts, or (2) transfer the building society deposit account into the spouse's sole name. The taxpayer paid tax at the higher rate, whilst the spouse paid tax at the basic rate.

This question was very well answered by the majority of candidates. In part (a) the adjustments for use of office, business use of a private telephone and own consumption caused the most problems, with a number of candidates being unsure as to whether adjustments should be added or subtracted in order to arrive at the tax adjusted trading profit. Part (b) was also well answered, with only the expense claim for the business mileage causing any difficulty. This was often treated as a benefit rather than as an expense. Part (c) was answered reasonably well, especially the transfer into the spouse's sole name. Many candidates correctly calculated the amount of income tax saving.

Question 2

In part (a) candidates had to (1) explain when an accounting period starts for corporation tax purposes, and (2) calculate a company's profits chargeable to corporation tax for a six-month period. In part (b) candidates had to (1) explain from what date a company was required to compulsorily register for VAT and state what action the company then had to take as regards notifying HMRC of the registration, (2) explain the circumstances in which the company would have been allowed to recover input VAT incurred on goods purchased and services incurred prior to the date of VAT registration, (3) explain why it would have been beneficial for the company to have voluntarily registered for VAT prior to the date of compulsory registration, and (4) state the additional information that the company would have to show on its sales invoices in order for them to be valid for VAT purposes.

Although fairly well answered, most candidates scored less marks on this question than on question one, despite it being potentially worth five marks more. The first section of part (a) caused no problems for well prepared candidates. The second section was also well answered, although many candidates were unsure as to what adjustment was necessary for the director's remuneration, and the related national insurance contributions, that had not been taken into account when preparing the draft accounts. However, the VAT aspects in part (b) were not so well answered. Few candidates appreciated when VAT registration would have been necessary, with many candidates basing their answer on the future test rather than the historical test. As regards voluntary VAT registration, few candidates appreciated that the company's revenue would not have altered given that all its customers were VAT businesses. Very few candidates could provide more than two or three of the six pieces of additional information that the company needed to show on its sales invoices in order for them to be valid for VAT purposes.

Question 3

In part (a) candidates had to explain when a person will be treated as resident or ordinarily resident in the United Kingdom for a particular tax year and state how a person's residence status establishes whether or not they are liable to capital gains tax. Part (b) required candidates to calculate a taxpayer's chargeable gains for 2007-08. The taxpayer had sold an office building involving a claim for rollover relief, incorporated a business with full

advantage being taken of incorporation relief, made a gift of unquoted shares involving a claim for holdover relief, received insurance proceeds following the destruction of an asset, and made a part disposal.

Part (a) was reasonably well answered, although only a few candidates appreciated that ordinary residence is a matter of where a person habitually resides. Many candidates missed an easy mark by not stating that people who are resident or ordinarily resident will be liable to capital gains tax. Part (b) was also reasonably well answered. The disposal that caused the most problems was the incorporation of the business, with many candidates not appreciating that the gain was simply based on the value of the goodwill transferred. Taper relief was sometimes ignored at a cost of three fairly straightforward potential marks.

Question 4

Part (a) required candidates to prepare a schedule showing the payments on account and balancing payments that a taxpayer will have made or will have to make during a 21-month period. In part (b) candidates were required to state the implications if the taxpayer had made a claim to reduce her payments on account to nil. In part (c) candidates were required to advise the taxpayer of the latest date by which her self-assessment tax return would have to be submitted if she wanted HMRC to prepare the self-assessment tax computation on her behalf. In part (d) candidates then had to state the date by which HMRC would have to notify the taxpayer if they intended to enquire into her self-assessment tax return, and the possible reasons why such an enquiry would be made.

This question was generally not well answered, and the impression given was that candidates had struggled with time management and had a lack of time remaining for this question. Part (a) caused the most problems, with the vast majority of candidates not being able to demonstrate how payments are calculated and paid under the self-assessment system. Class 2 national insurance contributions were often incorrectly included, whilst few candidates appreciated that a claim to reduce payments on account was possible. In part (b) most candidates appreciated that interest would be due, but very few mentioned the potential penalty that could be charged. It was disappointing that the self-assessment tax return submission dates were often not known in part (c), despite these being covered in the Finance Act article. The same comment applies to part (d). Candidates often gave a long list of reasons why HMRC could enquire into a return, but failed to mention that an enquiry might be on a completely random basis.

Question 5

Candidates were required to calculate a company's corporation tax liabilities in respect of a fifteen-month period of account, and to state by when these should be paid.

Depending on whether candidates appreciated that the period of account needed to be split into a twelve-month period and a three-month period, this question was either answered very well or quite badly. Invariably many of the less well prepared candidates calculated corporation tax based on a fifteen-month period. Even when the correct approach was taken, many candidates did not appreciate that the first twelve month period spanned two financial years each with different rates of corporation tax. The due dates were often omitted or incorrect.