



Examiners' report

P6 Advanced Taxation (UK)

June 2008

The exam was divided into section A and section B. Section A consisted of two compulsory questions worth a total of 66 marks. In section B candidates were required to answer two of the three questions worth 17 marks each.

Candidates appeared to be comfortable with the style of the paper with a good proportion of them spending an appropriate period of time on the optional questions. There was further evidence of some candidates starting their exam with the shorter, optional questions in Section B. This is an approach that all candidates should at least consider as these questions provide a more gentle introduction to the exam than those in section A. In section B, questions 3 and 5 were equally popular; question 4 was the most popular question.

General paper comments

You should pay particular attention to the following in order to maximise your chances of success in the exam in the future.

Know your stuff

- Successful candidates are able to demonstrate sufficient, precise knowledge of the UK tax system.
- This knowledge must be up to date. Candidates sitting the exam in 2009 must familiarise themselves with the many changes introduced by the Finance Act 2008 as summarised in the Finance Act article published in Student Accountant magazine and on the website.
- Knowledge and understanding of the technical content of Paper F6 is vital if you are to be successful at paper P6. This point is clearly demonstrated by the technical content of question 2.

Address the requirement

- Read the requirement carefully – then read it again; it's important.
- The requirement of each question is carefully worded in order to provide you with guidance as regards the style and content of your answers. You should note the command words within the requirement (calculate, explain etc), any matters which are not to be covered and the precise issues you have been asked to address.
- You should also note any guidance given in the body of the question regarding the approach you should take when answering the question.
- Pay attention to the number of marks available – this provides you with a clear indication of the amount of time you should spend.

Don't provide general explanations or long introductions.

- There is no need to explain what you are going to do before you do it; just get on with it.
- Think before you write. Then write whatever is necessary to satisfy the requirement.
- Apply your knowledge to the facts by reference to the requirement.

Be brave

- Don't be put off by a situation that you have not seen before.
- Follow the instructions in the question and the requirement and apply your knowledge of the tax system to the facts of the situation.

Manage your time

- Ensure that you allow the correct amount of time for each question.

Marks available in respect of professional skills

Marks were available for professional skills in questions 1 and 2. In order to earn these marks candidates first had to satisfy the requirement in relation to the format of the document requested. Further marks were then available for the clarity of the answer, including the ease with which it could be marked and the degree to which the conclusions reached followed logically from the explanations and calculations provided. These latter marks were more likely to be earned by those candidates who thought about the manner in which they intended to satisfy the requirement such that there was a sense of purpose and a coherency to their answers.

Question 1

This question was in two parts. In part (a) candidates had to write a memorandum, including explanations and calculations, consisting of four separate components. The general approach here was good, with well structured documents that addressed the majority of the issues being prepared by many candidates.

The first component concerned the tax efficient use of losses in a group situation. Whilst many candidates did this well, there were two particular areas where mistakes were common. The first was the incorrect inclusion of Titan Inc, a non-UK resident company, in the group relief group. The second was the belief, held by a large number of candidates, that losses should not be surrendered to a company if to do so would make it subject to marginal relief. Losses are used most tax effectively where they are offset against profits that fall between the limits. Accordingly, losses *should* be directed towards a company that is paying tax at the full rate if this will reduce its 'profits' below the upper limit. Only a small minority of candidates identified the possibility of the losses being carried back for offset against the profits of the loss-making company in the previous 12 months. The second component involved the acquisition of 65% of a loss-making company. The key here was to recognise that consortium relief would be available provided the remaining shares (or at least 10% of them) were held by a company. The possibility of consortium relief was identified by a significant number of candidates although many failed to recognise the importance of the identity of the other shareholder.

The third component required candidates to address the tax implications of the sale of an industrial property. The capital gain and the possibility of rollover relief were handled well. However, a surprising number of candidates calculated a balancing charge on the disposal despite the fact that the disposal took place after 21 March 2007. This indicates that many candidates had not familiarised themselves with the changes introduced by the latest Finance Act. The majority of candidates did not handle the VAT implications of the sale of the building well. Many of them missed the fact that the building was more than three years old or simply did not have sufficiently precise knowledge of the rules.

The final component of the memorandum concerned stamp duties and was handled well.

Part (b) concerned a firm's obligations in respect of money laundering and other matters when taking on a new client. This was done well by the majority of candidates.

Question 2

Part (a) of this question required candidates to carry out a series of calculations to determine the income tax underpaid where the income of one spouse was incorrectly declared on the tax return of the other. This is an example of a question that tests fundamental tax knowledge (brought forward from Paper F6) in a Paper P6 context.

There was a large number of marks here for dealing with basic aspects of investment income, employment income and trading income and the calculation of income tax liabilities. Most of these matters were handled well by the majority of candidates although knowledge of the trading income opening years rules and capital allowances was noticeably weaker than that relating to other matters.

Further marks were then available for determining the additional tax due on the income declared in the incorrect tax return. This could be handled most efficiently by working at the margin; calculating the tax on the additional income only and comparing it with the tax already paid on that income. However, this approach was not taken by the majority of students who wasted time preparing full income tax computations both with and without the incorrectly declared income.

The need to compare the additional tax payable by the husband with that already paid by the wife was not identified by all candidates. This may have been partly due to the instructions in the body of the question not being repeated in the requirement. This matter was addressed during the marking process and the requirement has been altered in the exam paper on the ACCA website.

Part (b) required candidates to explain the implications of deregistration for the purposes of VAT and to identify an alternative strategy that would assist in reducing the administration of VAT. Although the rules regarding deregistration were known by many candidates, a considerable amount of time was wasted by some who went on to describe the advantages and disadvantages of being registered in detail. The identification of an alternative strategy was not done particularly well, with many candidates providing a comprehensive list of VAT schemes rather than identifying the flat rate scheme as the one which would genuinely help the client.

Question 3

This question concerned a purchase by a company of its own shares and the taxation of profits made by non-UK resident companies.

Part (a) was in two parts. The first part was a relatively straightforward test of the tax treatment of a purchase of own shares whilst the second part tested the conditions that needed to be satisfied for capital treatment to apply. The first part was done well by the majority of candidates. The only common error was the general failure to recognise that, under the income distribution route, the distribution is the amount received less the amount *originally subscribed* for the shares (as opposed to the cost to the shareholder). A minority of candidates did not pick up easy marks by failing to include the personal allowance and/or the annual exemption or by using incorrect rates of tax.

Performance in the second part was not as good with many candidates simply listing all of the conditions they could think of as opposed to thinking and identifying the particular conditions that were relevant in these particular circumstances. This meant that time was wasted and that irrelevant conditions were provided at the expense of some that would have earned marks.

Part (b) was more difficult and was not done particularly well. The question required candidates to explain the maximum rate of tax that would be suffered on profits generated by non-UK resident companies, depending on whether or not they were distributed to the shareholder and whether or not a double tax treaty existed. A methodical approach was important here as there were a number of different situations to consider. However, many candidates addressed the issues in a fairly general manner and did not consider each of the possible situations.

Question 4

This question was the most popular of the optional questions. It concerned inheritance tax, capital gains tax and income tax together with certain implications of moving to the UK from overseas. There were five separate parts to this question, all of which had to be addressed in the time. A number of candidates failed to tailor their answers to the number of marks available and wasted time producing inappropriately long answers.

Part (a) required candidates to calculate the inheritance tax payable by the donee of a potentially exempt transfer following the death of the donor. This was done well by many candidates although a minority did not consider business property relief, which was an important element of the question. Those who did consider business

property relief often failed to recognise the existence of excepted assets in the company. Candidates were also asked to explain why the tax could be paid in instalments and to state when the instalments were due. This was not handled particularly well; many candidates did not know the circumstances in which payment by instalments is available and the payment dates given often lacked precision.

Part (b) concerned the liability to capital gains tax of an individual coming to the UK. It was only for two marks but it illustrated continued confusion on the part of many as to the treatment of someone who is not resident or ordinarily resident. Such a person is not subject to UK capital gains tax on personal investment assets and the remittance or otherwise of the proceeds is irrelevant. Candidates preparing for future exams should read the article 'International aspects of personal taxation' available on the website and ensure that they fully understand the rules.

Part (c) involved the desire to assist an employee's relocation to the UK without giving rise to an income tax liability. This was done rather well with many candidates identifying the possibility of a tax free loan and relocation assistance.

Question 5

This question concerned a company that intended to raise finance under the enterprise investment scheme to finance its expansion. The company intended to use a part of the funds raised to purchase new premises. Part (a) of the question was in two parts. The first part required candidates to identify the tax incentives available to potential investors and the second part asked for the answers to questions that potential investors may raise.

In the first part, although most candidates had a good knowledge of the income tax deduction available to investors, many of them did not identify the possibility of investors deferring capital gains. A minority of candidates included information regarding the conditions that needed to be satisfied by the company despite a specific instruction in the question not to do so.

When it came to addressing the possible questions from investors, candidates did well on the implications of a future sale of the shares. However, when addressing the maximum investment by a potential shareholder, candidates resorted to making general comments in relation to the maximum investment of £400,000, when they should have applied the specific rules to the facts of the question. This would have led them to the need to restrict any investment to no more than 30% of the company, i.e. £315,000.

Although this part of the question was answered well, many candidates would have done better if they had written less and spent some time relating their knowledge to the particular situation in the question.

Part (b) concerned the recovery of VAT input tax in respect of a building acquired by a partially exempt company. It was not answered well with many candidates failing to identify the need to apply the capital goods scheme to the situation.