



Examiners' report

F6 Taxation (UK)
June 2009

General Comments

This was another exceptionally good performance with many candidates achieving high marks. The simplification of capital gain tax for individuals, having a separate VAT question, and a fairly straightforward question five all contributed to the good pass rate. In addition, candidates seemed very well prepared for this examination. Areas, such as NIC, which a few diets ago were causing problems, are now handled with ease.

Specific Comments

Question One

In part (a) candidates had to calculate the respective income tax liabilities for three brothers. The first brother was entitled to an age-related personal allowance, and had pension income, interest from a savings certificate from the National Savings & Investments Bank, and had made donations to charity (not made under gift aid). The second brother had employment income, had used his private motor car for business purposes, had been paid relocation costs by his employer, had contributed towards his employer's occupational pension scheme, and made donations to charity (under the payroll deduction scheme). The third brother had been in self-employment for the last nine months of the tax year, had contributed into a personal pension scheme, and made donations to charity (made under gift aid). In part (b) candidates had to advise the three brothers of the latest dates by which their respective self-assessment tax returns would have to be submitted given stated filing preferences. Then in part (c) candidates had to advise the three brothers as to how long they must retain the records used in preparing their respective tax returns, and the potential consequences of not retaining the records for the required period. This question was very well answered by the majority of candidates. In part (a) many candidates did not appreciate that donations to charity not made under gift aid are simply ignored, and some candidates missed the income limit for the age-related personal allowance. The expense claim in respect of the business mileage driven by the employed brother often caused problems. Either it was incorrectly calculated, or it was treated as a benefit. Part (b) was well answered. In part (c) few candidates appreciated that the period of retention differs between taxpayers in business and those not in business. However, virtually all candidates were aware of the £3,000 penalty.

Question Two

Part (a) required candidates to calculate a company's tax adjusted trading profit, and part (b) then required a calculation of the company's corporation tax liability. In part (c) candidates were required to state the date by which the company's corporation tax liability should be paid, and to advise the company of the interest that would be due if the liability was paid eight months late. Part (d) required an explanation of the group relationship that must exist in order for two or more companies to form a group for capital gains purposes. In part (e) candidates then had to state the time limit for the company and its subsidiary to make a joint election such that the subsidiary would be treated as disposing of the company's chargeable gain, and to explain why such an election would be beneficial. This question was very well answered, with only part (e) consistently causing problems. In part (a) candidates were instructed to list all of the items referred to in the notes, and to indicate by the use of zero any items that did not require adjustment. This method should be quicker for candidates than writing separate explanatory notes, and shows that they have considered any non-taxable and non-deductible items, rather than simply forgetting about them. Candidates are advised that this will be a standard approach in future and they should ensure they follow this instruction to be able to score full marks. Despite the instruction some candidates did not list those items not requiring any adjustment. Parts (a) and (b) were kept separate for a very good reason – namely to help candidates. Therefore those candidates who attempted to combine both parts into one calculation not surprisingly often had problems. Given the new capital allowances rules, it was pleasing to see many candidates correctly calculate the correct figure for capital allowances. Although I can applaud candidate's attempts to save paper, it is not good examination technique to try and squeeze a capital allowances computation of this size into 5 or 6 lines at the end of a page. In part (c) a disappointing number of candidates gave 31 January as the payment date. Only a few candidates appreciated that interest would be due, and fewer still correctly calculated the actual amount payable. In part (d) most candidates appreciated that a 75% shareholding was necessary, but were then often unsure where the 50% limit fitted in. The holding company

must have an effective interest of 50%. In part (e) many candidates simply stated that losses could be set against profits, without making any attempt to use the information given in the question.

Question Three

The CGT question required candidates to compute the liabilities for a husband and wife. The husband had made a gift of quoted shares (including a purchase within the following 30 days), a gift of unquoted shares to his wife, sold a non-wasting chattel, and sold UK Government securities. The wife had sold the unquoted shares gifted to her by her husband, sold a principal private residence partly used for business purposes, sold a business qualifying for entrepreneurs' relief, and sold a wasting asset. Despite being the first test of the new CGT rules, this question was generally well answered. For the husband, quite a few candidates surprisingly had problems with the valuation rules for quoted shares. It was also not always appreciated that the transfer between spouses and the sale of the UK Government securities were respectively at no gain, no loss, and exempt. Candidates thus wasted time performing unnecessary calculations. Many candidates had difficulty with the cost of the quoted shares disposed of, and they incorrectly included the purchase within the following 30 days as part of the share pool. The restriction of the brought forward capital losses so that chargeable gains were reduced to the amount of the annual exemption was often missed. For the wife, many candidates treated the private portion of the principal private residence as taxable rather than the business portion. The investment property included within the disposal of the business was sometimes treated as exempt from CGT, and sometimes entrepreneurs' relief was claimed in respect of it. Only a minority of candidates correctly calculate the cost of the wasting asset.

Question Four

Part (a) required candidates to calculate the amount of VAT payable by a taxpayer, and to state the date by which the related VAT return was due for submission. In part (b) candidates had to state the conditions that the taxpayer would have to satisfy before being permitted to use the cash accounting scheme, and to advise her of the implications of using the scheme. Part (c) then required candidates to advise the taxpayer as to what would happen to the taxpayer's VAT registration, and whether output VAT would be due in respect of fixed assets, if she ceased trading and then (1) sold her fixed assets on a piecemeal basis to individual VAT registered purchasers, or (2) sold her entire business as a going concern to a single VAT registered purchaser. This was the first time that VAT has been examined as a separate question, and it was therefore pleasing to see many very good answers. In part (a) candidates often did not appreciate that the calculation of output VAT on credit sales had to take account of the discount for prompt payment even if it was not taken by customers. In part (b) the answers of many candidates lacked sufficient depth to gain full marks. For example, the turnover limit of £1,350,000 was usually known, but only a minority of candidates correctly stated that it applied for the following 12-month period. The same comment applies to part (c). For example, candidates generally appreciated that the taxpayer's VAT registration would be cancelled, but few stated that the reason for the cancellation was the cessation of making taxable supplies. Many candidates stated that on a sale of the business as a going concern the VAT registration could be taken over by the purchaser despite the question clearly stating that the purchaser was already registered for VAT.

Question Five

Part (a) required candidates to list those factors that indicated that a taxpayer should be treated as an employee in relation to his work for a company rather than as self-employed. In part (b) candidates then had to calculate the taxpayer's income tax liability and NIC if he was treated as (1) an employee, or (2) as self-employed. This question was very well answered by the majority of candidates. However, in part (a) only a few candidates pointed out that the taxpayer did not take any financial risk or profit from sound management. The only common mistake in part (b) was that candidates often based their NIC calculations on the taxable income figure rather than on employment income or trading profit.