



Examiners' report

P6 Advanced Taxation (UK)

June 2009

General Comments

The exam was divided into section A and section B. Section A consisted of two compulsory questions worth a total of 64 marks. In section B candidates were required to answer two of the three questions worth 18 marks each.

Many candidates demonstrated that they had practised past exam questions such that they were confident of the style they needed to adopt in order to cover all of the aspects of the questions in the time available; their answers were brief and direct with no superfluous introductory paragraphs. The vast majority of candidates appeared to have spent an appropriate period of time on each of the four questions and the layout and structure of answers continued to be good.

In section B, questions 3 and 4 were equally popular; question 5 was the least popular question.

Specific Comments

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

1. 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 December 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.
2. Practise questions from past exams and the Pilot Paper.
3. Address the requirement
 - Read the requirement carefully – then read it again; marks are awarded for satisfying the requirement and not for other information even if it is technically correct.
 - 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.
4. 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.
5. Manage your time
 - Ensure that you allow the correct amount of time for each question.

If you are preparing to resit the exam, think about the number of additional marks you need and identify a strategy to earn them.

- Identify those areas of the syllabus where you are weakest and work to improve your knowledge in these areas.
- Ask yourself whether you could improve the way you manage your time in the exam and whether you address all of the parts of all four questions.
- Make sure that you earn the professional skills marks and that you are prepared to address the ethical issues that may be examined.

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 addressing the specifics of the question (rather than generalising) for directing the answer towards the needs of the particular client, and for the ease with which the question could be marked.

The performance of candidates in this area was good with the majority of candidates producing well structured documents in a style that was easy to follow.

Question One

This question required candidates to prepare meeting notes in connection with personal tax, corporation tax and VAT. Although the meeting notes were for the candidate's manager many candidates provided unnecessary detailed descriptions of the operation of the various taxes rather than simply addressing the particular issues in the question.

Part (i) required calculations of the capital gains tax on the sale of an unincorporated business and on a subsequent sale of shares together with advice on the tax implications of making a gift of shares to the spouse prior to the sale. Candidates' performance on this part of the question was good. Most problems that arose were self-inflicted in that the question stated that incorporation relief would not be claimed but many candidates insisted on carrying out various calculations in relation to that relief. Also, a minority of candidates treated the sale of the unincorporated business as a sale of shares. Most candidates handled the entrepreneurs' relief and the inter-spouse transfer correctly.

Part (ii) was a test of the ability of candidates to identify their relevant knowledge of the basics of corporation tax and to summarise it in an appropriate manner. This should have been a straightforward requirement and for many candidates it was. However, some candidates failed to stick to the point and so addressed unnecessary areas (for example group losses) whilst failing to cover all of the required issues. There was also a failure to use the information in the question (for example, the predicted profit levels) in order to ensure that the comments made were specific to this particular company. The transfer pricing aspect of this part was handled well.

Part (iii) required the consideration of a number of aspects of VAT and was done well. As always, weaker candidates could not resist writing down everything they knew rather than simply answering the question, particularly in connection with group registration.

Question Two

This question required a letter covering a number of personal tax planning issues. Most candidates started off writing a letter but, by the end of their answers, a considerable number were addressing the client as 'he' rather than 'you' and failing to sign off. This is a test of candidates' professional skills and is an easy way for candidates to earn (or lose) marks.

Part (i) concerned inheritance tax and the identification of errors in a schedule prepared by a friend of the taxpayer. Many candidates did an excellent job of this and produced brief explanations and adjusted calculations although a minority failed to provide the necessary explanations. Weaker candidates wasted time describing the operation of inheritance tax in detail and reproducing all of the calculations. This was a time to read and think rather than write; eight relatively easy marks were available to those who stayed calm and applied their knowledge.

The question stated there were no errors in relation to the annual exemptions and the taper relief but many candidates insisted on checking these areas and some even found 'errors'. Candidates will benefit enormously from reading the question carefully and taking note of all advice given.

Part (ii) concerned investing in venture capital trusts (VCTs) and pension contributions. Candidates performed very well in connection with VCTs; the only weakness was an inability to resist summarising enterprise investment schemes at the same time. Pension schemes were not handled as well as VCTs. This was perhaps because there was a need to address a specific area of pensions (maximum contributions for these particular taxpayers) as opposed to the rules in general. Many candidates described, unnecessarily, how tax relief is obtained for pension contributions.

Part (iii) concerned various aspects of income tax planning and was the most difficult part of the question. Candidates had to prepare calculations to show the effect on the total tax payable of transferring personal investments to a company. It was disappointing that only the best candidates recognised that the proposed company would be a close investment holding company and would therefore pay tax at 28%.

A large number of candidates made basic errors, for example, including dividend income in the corporation tax computation. Candidates also made life hard for themselves by calculating the tax on all of the income rather than on the income that related to the assets to be transferred. Candidates should pause before preparing calculations, consider any advice given in the question and the precise terms of the requirement and then think about the best way to solve the problem before putting pen to paper.

The income tax advantages of transferring assets to other family members and the issues relating to tax avoidance and tax evasion were handled well.

Question Three

This question concerned the use of losses by a partner in a partnership and registration for VAT. It was in two parts.

Part (a) required calculations of a partner's share of a loss arising in a partnership and the most beneficial use of that loss. The calculation of the capital allowances, which required knowledge of the changes introduced by Finance Act 2008, was done well. However, the allocation of the loss between the partners was done poorly with the majority of candidates treating the salaries as employment income rather than as a share of the trading loss.

The use of the loss was also problematic. Weaker candidates were confused as to corporate and personal loss offset rules. Even many stronger candidates lacked the precise knowledge required to score well; a statement of how losses can be used must describe precisely the income against which the loss can be offset, for example, 'against future profits of the same trade' in order to earn all of the marks available.

The calculations were not done particularly well and many answers were very difficult to follow. Many candidates ignored the requirement to calculate the total tax saved and simply prepared various income tax computations.

Part (b) required an explanation of the rules relating to registration for VAT. Weaker candidates wasted time describing the future test in detail despite it not being relevant to this particular question. In addition, many candidates lacked precise knowledge (for example in relation to the date registration comes into effect) such that they did not score as well as would have been expected.

Question Four

This question concerned inheritance tax and capital gains tax in respect of two proposed gifts. The question was in two parts.

The first part concerned the availability of gift relief and business property relief and required calculations of the effect of submitting a valid claim for gift relief. The calculations were done reasonably well with many candidates identifying the need to restrict the gift relief due to the existence of chargeable assets that were not business assets. The explanations of the availability of the reliefs were not done so well. The majority of candidates knew that an election for gift relief needed to be signed by both the donor and the donee but there was a general lack of precise knowledge as to which assets qualify for which reliefs. In relation to business property relief, many candidates thought the ownership requirements related to the donee rather than the donor.

The second part required calculations of a potentially exempt transfer and the capital gain arising in respect of a gift of a painting. The inheritance tax aspects of this part were difficult and were not done particularly well with the exception of the available exemptions. The capital gains tax aspects were more straightforward and were done well with the exception of weaker candidates who did not know which assets qualify for gift relief.

This question highlighted confusion between capital gains tax and inheritance tax and between gift relief and business property relief; candidates must learn these rules if they are to be successful in this exam.

Question Five

This question concerned a group of companies and the payment of dividends. It was in two parts. The first part required an explanation of the use of brought forward losses and calculations of dividends payable to the holding company of the group.

The explanations were not done particularly well due to a lack of precise knowledge and a lack of care when reading the question. In particular, many candidates treated the brought forward losses as if they were current period losses and consequently wasted time providing comprehensive descriptions of the carry back of losses and group relief. There were only three marks for part (a) (i); three well-worded sentences would have been enough to earn full marks.

The calculations were relatively tricky and required a methodical approach in order to determine the post-tax profits of each company. Additional credit was given to candidates who calculated a dividend, thus demonstrating an intention to solve the problem, as opposed to those who simply prepared various corporation tax computations. The use of the brought forward non-trading loan relationship deficit made it particularly tricky to get the answer absolutely correct, but very respectable marks could be obtained without any reference to this point.

The second part concerned the use of a branch or subsidiary for a new overseas operation. Candidates knew quite a lot about this area of the syllabus but let themselves down by including all of their knowledge in their answers rather than applying it to the facts and answering the question set.