

Examiner's report

F6 Taxation (UK)

June 2010

The ACCA logo consists of the letters 'ACCA' in a bold, white, sans-serif font, centered within a solid black square.

General Comments

This style of this paper was slightly different from recent papers, with more smaller sub-parts enabling more of the syllabus to be covered. Some of the other changes were that the VAT information needed for question 1 part (d) was not shown separately (instead being included within the main text), and in question 2 the group relief and capital allowance aspects were in separate sections (requiring explanations instead of straightforward computations) rather than being examined computationally as part of the main corporation tax question. Candidates cannot expect to have an easy income tax or benefits computation in every paper. The pass rate achieved was quite satisfactory.

Specific Comments

Question One

In part (a) candidates had to explain why two taxpayers would both be treated for tax purposes as resident in the UK. In part (b) candidates were required to calculate a partnership's tax adjusted trading profit, and then allocate this between the two partners. Part (c) then required candidates to calculate the class 4 NIC payable by the partners. The VAT aspects of the paper were in part (d). Candidates were required to (i) advise the partnership of the VAT rules that determine the tax point in respect of a supply of services, (ii) calculate the amount of VAT paid by the partnership using the normal basis, and (iii) advise the partnership of the conditions that must be satisfied in order to join and continue to use the VAT flat rate scheme, and then to calculate the tax saving if the partnership had instead used the flat rate scheme.

This question was well answered, especially parts (b) and (c). In **part (a)** several candidates simply repeated the information contained within the question rather than explaining the 183 day rule and the substantial visits rule. There were generally no problems with **part (b)** although a number of candidates did not appreciate that they had to deduct the salary and interest on capital before allocating the balance of profits. Most candidates scored maximum marks for **part (c)**. In **part (d)** the tax point was explained reasonably well, although some candidates wasted time by also giving details for the supply of goods. Some students struggled with the VAT calculation, assuming this to be much more complicated than it actually was. For 2 marks, all that was required was to select the output VAT of £21,600 and input VAT of £140 and £180 from the text, and then calculate the amount payable of £21,280. It was not necessary to calculate any VAT figures and therefore the fact that the period spanned the date when the VAT rate changed was irrelevant. The main problem as regards the VAT calculation using the flat rate scheme was that candidates incorrectly deducted input VAT.

Question Two

Part (a) required candidates to (i) calculate a company's property business profit, and then (ii) calculate the company's profits chargeable to corporation tax for the current period and the previous three years taking into account the trading loss incurred in the current period. In part (b) candidates were required to advise the company as to how much of its trading loss could be claimed by a subsidiary company as group relief given non-coterminous accounting periods. In part (c) candidates were required to explain the maximum amount of capital allowances that the company could claim if it purchased (i) new equipment qualifying for the annual investment allowance, or (ii) a new ventilation system being integral to a building. Lastly, in part (d) candidates had to advise as to the additional amount of income tax and NIC that would be payable if a director was paid additional remuneration.

This question was generally very well answered, especially the calculation of the property business profit in **part (a)** where most candidates scored virtually maximum marks. The second aspect of part (a) was not so well answered as candidates often did not appreciate that additional loss relief was available or that it was restricted to £50,000. In **part (b)** several candidates explained whether or not group relief would be available rather than calculating the amount of relief. In **part (c)** most candidates were aware of what capital allowances were available, although some candidates incorrectly stated that the ventilation system would qualify for industrial

buildings allowance. Many candidates complicated **part (d)** by performing long calculations, making this much more time consuming than necessary for 3 marks. However, they should have appreciated that this was additional remuneration so the calculations were simply £40,000 x 40%, £40,000 x 1% and £40,000 x 12.8% for the 3 marks.

Question Three

Part (a) of this question involved the calculation of a company's chargeable gains. The gains involved were (1) the disposal of ordinary shares from a share pool following a rights issue, (2) the receipt of insurance proceeds for a damaged asset which was subsequently restored, (3) the disposal of a freehold building subject to a rollover relief claim, and (4) a part disposal. In **part (b)** candidates had to state the base costs of the assets still retained by the company.

It was pleasing to see that this question was well answered. On an overall note, it does not create a very good impression when candidates deduct the annual exemption when dealing with a company. The only aspect that consistently caused problems in **part (a)** was the restoration of the asset. Despite the question telling candidates that a claim to defer the gain had been made, many insisted that such a claim was not possible and instead calculated a capital loss. Many candidates did not even attempt **part (b)** despite the fact that this section generally just required them to provide figures already calculated in part (a).

Question Four

This question dealt with the tax implications of a taxpayer's deliberate failure to notify HMRC of a CGT liability. In **part (a)** candidates were required to explain the difference between tax evasion and tax avoidance, and how HMRC would view the taxpayer's actions. **Part (b)** required an explanation from an ethical viewpoint as to how a trainee Chartered Certified Accountant should deal with the taxpayer's non-disclosure to HMRC. In **part (c)** candidates were required to state the action HMRC would take in order to obtain information from the taxpayer, and then in **part (d)** to explain why HMRC would be entitled to raise a discovery assessment. On the assumption that HMRC raised an assessment, candidates were required in **part (e)** to (i) calculate the amount of interest that would be due, and (ii) advise the taxpayer of the likely penalty that would be charged by HMRC and how this could have been reduced as a result of disclosure.

This question was not well answered, with many candidates attempting it as their final question or omitting it altogether. This was disappointing given that several sections covered recent tax management changes which have been covered in my Finance Act articles. In **part (a)** most candidates knew the difference between tax evasion and tax avoidance, but many failed to score an easy mark by not stating that the taxpayer's actions would be viewed as tax evasion. **Part (b)** caused problems for most candidates but a common sense approach would have gained most of the available marks. Unfortunately, far too many candidates instead just incorrectly explained that it would be necessary to inform HMRC themselves. In **part (c)** far too many candidates wrote at length about an enquiry rather than just stating that HMRC would issue a written information notice. The time limits in **part (d)** were often not known, and most candidates were unaware of the use of a discovery assessment despite being given help in the wording of the requirement. There was little excuse for getting the interest calculation wrong in **part (e)** as candidates were given the tax liability, the due date, the payment date and the rate of interest. There was little awareness of the new penalty regime.

Question Five

Part (a) required candidates to explain why a company was required to make quarterly instalment payments of its corporation tax liability. In **part (b)** candidates were required to calculate the company's corporation tax liability, and explain how and when this would be paid if the quarterly instalment basis applied. Then in **part (c)** candidates had to explain how their answer to part (b) would differ if the quarterly basis did not apply.

This question was reasonably well answered. In **part (a)** very few candidates appreciated that there was a possible exception and that the exception did not apply. This was the reason why figures were given for the



previous year, and less well prepared candidates created a lot of problems for themselves by trying to use these figures as part of their calculations. Candidates had little difficulty in calculating the corporation tax liability in **Part (b)**, but they often struggled with the quarterly due dates. There was a similar problem in **part (c)** where many candidates failed to score an easy mark by omitting the due date.