



# Examiners' report

## F6 Taxation (UK) December 2007

This was a very good performance for the first sitting of this paper. Those candidates who marginally failed to achieve a pass mark generally did so because of poor time management as explained in the comments on each individual question. Also, many candidates that were obviously running out of time surprisingly opted to attempt question five, which was quite the most technically demanding on the paper, rather than question four where it was relatively easy to score 9 or 10 marks. Practising questions under timed, exam-style conditions prior to sitting the examination would have helped as regards time management.

### Question 1

In part (a) candidates had to calculate (1) the income tax payable by two sisters for 2006-07, (2) the national insurance contributions payable by the sisters for 2006-07, and (3) their balancing payments for 2006-07 and payments on account, if any, for 2007-08. The first sister was self-employed having made contributions into a personal pension scheme whilst the second sister was employed having made contributions into her employer's occupation pension scheme. In Part (b) candidates had to (1) calculate the amount of VAT payable by the self-employed sister, and (2) advise on the conditions that must be satisfied before being permitted to use the VAT flat rate scheme, and the advantages of joining the scheme.

This question was generally very well answered. In part (a) many candidates did not appreciate that it was not necessary to gross up the interest received from an investment account at the National Savings & Investment Bank, or that interest from savings certificates is exempt from tax. The contribution to the occupational pension scheme was often used to extend the basic rate tax band rather than being deducted in calculating employment income. Many candidates wasted time in calculating a fuel benefit despite the question clearly stating that no fuel was provided for private journeys. The one aspect of the question that consistently caused problems was the calculation of the balancing payments and the payments on account, and this section was often not answered at all. It was disappointing that many candidates were not aware of the relevant due dates. The VAT aspects in part (b) were well answered, although far too many candidates incorrectly deducted input VAT when calculating the amount of VAT payable using the flat rate scheme.

### Question 2

In part (a) candidates had to calculate a company's tax adjusted trading loss. This involved adjustments for disallowed expenditure and non-trading income, and the calculation of allowances for plant and machinery and a second-hand industrial building. In part (b) candidates then had to advise the company as to the maximum amount of group relief that could potentially be claimed by each of its three subsidiary companies.

Part (a) of this question was very well answered with only the calculation of the industrial buildings allowance consistently causing problems. A certain amount of bad examination technique was evident as regards the adjustments in computing the trading loss. Some candidates went into far too much detail explaining the adjustments made, thus wasting time, whilst others produced figures without any workings at all. This was fine for correct answers, but not so for incorrect ones. Where no adjustment was necessary, such as for the interest payable, then this fact should have been clearly shown or stated. As regards the industrial building, far too many candidates based their calculations on the original cost and a 4% allowance rather than the purchase price and the remaining 25-year life of the factory. Most candidates did not answer part (b) very well. Many candidates wasted a lot of time by performing detailed calculations showing the amount of group relief that should have been claimed rather than the amount that actually could be claimed.

### Question 3

The capital gains question required candidates to compute the capital gains tax liabilities for a married couple. The couple had disposed of a motor car, a principal private residence with periods of non-occupation, non-wasting chattels, unquoted shares following an inter-spouse transfer, and quoted shares (requiring a share valuation and the application of the matching rules).

Although there were some very good answers to this question from well prepared candidates, it caused problems for many and was often the reason that they failed to achieve a pass mark. One particular problem was that a lot of time was often spent performing unnecessary calculations for the exempt assets, and then not having sufficient time to deal with the chargeable assets. Many candidates therefore did a lot of work for this question but scored few marks. The jointly owned property caused particular difficulty. Only a few candidates correctly calculated the principal private residence exemption, and it was not always appreciated that this was set off after deducting indexation. Some candidates did not allocate the resulting chargeable gain between the couple but instead deducted an annual allowance and calculated a separate tax liability.

#### **Question 4**

Part (a) required candidates to state the income tax advantages of a property being treated as a trade under the furnished holiday letting rules. In part (b) candidates were required to calculate a taxpayer's furnished holiday letting loss. In part (c) candidates then had to calculate the taxpayer's property business profit including a claim for rent-a-room relief.

This was a very well answered question. In part (a) some candidates discussed the qualifying conditions for a furnished holiday letting rather than the advantages of a property being so treated. Parts (b) and (c) presented few problems. The only aspects that consistently caused difficulty were the capital allowances for the furnished holiday letting (candidates either claimed wear and tear allowance or deducted the full cost of the capital expenditure) and the furnished room (candidates did not appreciate that rent-a-room relief could be claimed).

#### **Question 5**

Part (a) required candidates to state the factors that will influence an individual's choice of loss relief claims. Part (b) then required a calculation of a taxpayer's taxable income and gains for 2003-04, 2004-05, 2005-06 and 2006-07 on the assumption that a trading loss for 2005-06 was relieved on the most favourable basis.

This question was generally not answered well. Although it was technically the most demanding question on the paper, requiring a bit more thought than the other four questions, it was quite short and should not have presented too many difficulties for reasonably well prepared candidates. In part (a) many candidates explained the loss reliefs that were available rather than the factors that must be taken into account when deciding which loss reliefs to actually claim. In part (b) it was extremely disappointing to see the vast majority of candidates include the capital gains in their computation of taxable income. The capital gains annual exemption was often then deducted against the combined figure of taxable income and taxable gains. Many candidates claimed loss relief against the total income for the year of the loss despite this income clearly being covered by the personal allowance. Very few candidates, even if they showed the capital gains separately, claimed loss relief against capital gains.