

Examiners' report

F6 Taxation (UK)
December 2008

This was an exceptionally good performance with many candidates achieving high marks. None of the questions caused any problems, and even candidates who did not do particularly well with questions 1, 2 and 3, often managed to achieve a pass mark by scoring good marks on questions 4 and 5.

Question 1

In part (a) candidates were required to calculate the amount of income tax payable by a taxpayer. The taxpayer had employment income (including bonus payments, a company motor car, the use of living accommodation, two employer provided mobile telephones, and an employer provided health club membership) and property income, and had made a gift aid donation. In part (b) candidates were required to calculate the amount of national insurance contributions that would have been paid by the taxpayer and by his employer in respect of earnings and benefits.

This question was very well answered by the majority of candidates. In part (a) a few candidates did not appreciate that both bonuses were to be treated as earnings, whilst the basis of assessing the second mobile telephone was not always known. Some candidates deducted the gift aid donation rather than extending the basic rate tax band. In part (b) the most common mistake was to include taxable benefits when calculating Class 1 national insurance contributions.

Question 2

In part (a) candidates had to (1) calculate a company's tax adjusted trading loss after taking into account capital allowances for plant and machinery and a second-hand industrial building, (2) calculate the company's corporation tax liability, and (3) state the date by which the company's self-assessment corporation tax return would have to be submitted, and advise the company of the penalties that would be due if the return was submitted eight months late. In part (b) candidates had to (1) state, giving appropriate reasons, the default surcharge consequences arising from the company's submission of VAT returns over a 21-month period, and (2) advise the company why it might be beneficial to use the VAT annual accounting scheme, and to state the conditions that it would have to satisfy before being permitted to do so.

This question was generally well answered, and it was pleasing to see many very good answers for the VAT aspects in part (b). When calculating the trading loss a number of candidates made this far more complicated than necessary by commencing with the profit before taxation figure rather than the operating loss figure. Those candidates who attempted to combine the first two aspects of part (a) into one computation generally had difficulty, and can only be advised to deal with each requirement separately. Those few candidates who treated the dividend income as part of the profits chargeable to corporation tax cannot expect to pass this examination. In part (b) surprisingly few candidates knew the turnover limit applicable to the annual accounting scheme.

Question 3

In part (a) candidates had to compute a company's corporation tax liability after calculating four capital gains. The four disposals were (1) a freehold office building involving enhancement expenditure and the indexation allowance, (2) quoted shares involving the matching rules, (3) quoted shares involving the allocation of cost following a reorganisation, and (4) the part disposal of land. Part (b) then required candidates to advise the company of (1) the minimum amount that would have to be reinvested in order to claim the maximum possible amount of rollover relief, (2) the period during which the reinvestment would have to take place, and (3) the amount of corporation tax that would have been deferred if the maximum possible amount of rollover relief had been claimed.

Part (a) was reasonably well answered. As regards the freehold office building, many candidates did not appreciate that indexation would also be available for the incidental costs of acquisition. For the quoted shares many candidates based their answers on the LIFO rules applicable to individuals rather than the pooling rules.

The allocation of cost following the reorganization also caused problems. Part (b) was also reasonably well answered, with a number of candidates providing perfect answers.

Question 4

Part (a) required candidates to calculate the trading income assessments of three partners for three tax years. Two of the partners had commenced trading during the first tax year, whilst the third partner joined the partnership during the third tax year. Part (b) required candidates (1) to calculate the amount of trading profits that would have been assessed on a taxpayer who had changed their accounting date, and (2) to state the amount of unrelieved overlap profits. Part (b) required candidates to calculate the amount of trading profits that would have been assessed on a taxpayer who had ceased trading.

This question was extremely well answered by the majority of candidates, many of whom scored maximum marks. One of the main problems in the answers of poorer candidates was not showing the appropriate tax years, thus losing a lot of marks throughout. The only common mistake was that in part (b) for the year of change, candidates often used an actual basis rather than the 12 months to the new accounting date.

Question 5

For each of three taxpayers candidates were required to state the amount of personal pension contributions that would have qualified for tax relief, and then to calculate the income tax liability for each taxpayer. The first taxpayer had made contributions in excess of earnings; the second taxpayer had made contributions below the level of earnings but in excess of the annual allowance. The third taxpayer did not have any relevant earnings.

This question was reasonably well answered, although there were few first-rate answers. For the first taxpayer the most common mistake was to extend the basic rate tax band by the amount of contributions rather than earnings. For the second taxpayer the basic rate band was often extended by the amount of annual allowance rather than the contributions. Many candidates did not appreciate that there would be an excess contribution charge. Very few candidates stated that the third taxpayer would have received tax relief up to £3,600 of her contributions.