



Examiner's report

F6 Taxation (UK)
December 2009

General Comments

This was another good performance, and well prepared candidates had no difficulty in achieving a pass mark. Questions three (capital gains tax (CGT)) and five (corporate loss relief) caused the most problems, and the value added tax (VAT) aspects of question two were also not particularly well answered.

Specific Comments

Question One

In part (a) candidates were required to calculate the trading profits that would have been assessed on a taxpayer for the first three tax years of trading, and to identify the amount of any overlap profits. In part (b) candidates had to calculate the taxpayer's tax adjusted trading profit. In part (c) candidates were then required to calculate (1) the income tax payable by the taxpayer for 2008-09, and (2) the balancing payment for 2008-09 and the payments on account for 2009-10, stating the relevant due dates. In part (d) candidates had to advise the taxpayer of the consequences of paying the balancing payment for 2008-09 four months late. This question was very well answered, and there were many high scoring answers. In part (a) some candidates lost marks because they did not show the relevant tax years in which profits were assessable. There were few problems as regards the calculation of the trading profit or the income tax payable, although many candidates did not appreciate that interest from government stocks is received gross and is taxable. As regards the balancing payment and payments on account, candidates were often not aware of the relevant dates. In part (d) many candidates did not appreciate that a 5% surcharge would be imposed in addition to the interest charge.

Question Two

In part (a) candidates had (1) to explain why a company was treated as being resident in the United Kingdom, (2) to calculate the company's corporation tax liability (this involved the computation of capital allowances, industrial buildings allowance, overseas income and double taxation relief), and (3) to explain the corporation tax implications if the company were to export manufactured good to its overseas subsidiary company at a price that was less than the market price. In part (b) candidates had (1) to explain why the company had to compulsorily register for VAT, and to state what action the company then had to take as regards notifying HM Revenue and Customs of the registration, (2) to calculate the amount of pre-registration input VAT that the company was able to recover (an explanation was also required as to why the input VAT was recoverable), and (3) to explain how the company could have voluntarily disclosed errors found on a previously completed VAT return, and to state the circumstances in which default interest would have been due. Although the numerical aspects of this question were well answered, most candidates achieved lower marks for this question than for question one, despite this question being five marks longer. In the first section of part (a) most candidates were not aware that the essential point regarding residence is where a company's central management and control is exercised. Most candidates had little difficulty with the corporation tax computation, and there were many perfect answers to this part of the question. However, the overseas income was often treated as franked investment income or simply ignored. The double taxation relief was sometimes used to reduce the overseas income rather than the corporation tax liability. As regards transfer pricing, very few candidates gave detailed enough answers to score more than one or two marks. It was surprising that very few candidates even appreciated that the pricing policy would result in the company's UK corporation tax liability being reduced. In part (b) the VAT aspects of the question were not so well answered. Many candidates incorrectly stated that VAT registration was necessary

because the company had exceeded the registration limit over the previous 12 months. They even gave the wrong date of registration despite this being given in the question. A number of candidates prepared the company's VAT return showing output VAT and input VAT, rather than calculating the amount of pre-registration input VAT. Very few candidates were aware of when default interest is charged.

Question Three

The CGT question involved three taxpayers who had all made disposals of assets. In part (a) the taxpayer had incorporated a business. Candidates were required to (1) calculate the taxpayer's chargeable gains and the base cost of the shares in the new company, and (2) explain how the answer to (1) would have differed if the consideration for the transfer had been partly in cash rather than fully in the form of ordinary shares. In part (b) the taxpayer had made a gift of ordinary shares in an unquoted trading company to his son. Candidates were required to (1) calculate the taxpayer's chargeable gain and the base cost of the son's shareholding, and (2) explain how the answer to (1) would have differed if the shares had been sold at an undervaluation rather than being gifted. In part (c) the taxpayer had sold a principal private residence. Candidates were required to (1) calculate the taxpayer's chargeable gain, and (2) explain how the answer to (1) would have differed if the taxpayer had rented out the property during the period that it was unoccupied. This question was not as well answered as would have been expected given that it was effectively three short separate questions on reasonably straightforward areas of capital gains tax. On an overall note, the question clearly stated that entrepreneurs' relief was to be ignored, yet some candidates still showed this relief as being claimed. Base costs were often not shown despite these being required in parts (a) and (b). In part (a) far too many candidates treated this as one disposal rather than dealing with each asset separately. In the second section only a few candidates appreciated that incorporation relief was restricted according to the proportion of cash consideration to total consideration. Part (b) was reasonably well answered, although few candidates could correctly calculate the revised base cost following the restriction of holdover relief in the second section. Although there were some very good answers to part (c), far too many candidates had problems calculating the principal private residence exemption, and often lost marks by not showing detailed workings. Even when the correct exemption was calculated this was often shown as the amount chargeable rather than the exempt amount. In the second section it was not always appreciated that letting relief was available.

Question Four

Part (a) required candidates to briefly explain the meaning of each of the six badges of trade. Parts (b) and (c) concerned the purchase, renovation, and sale of a freehold house by a taxpayer. In part (b) candidates had to calculate the taxpayer's income tax liability and national insurance contributions if he was treated as carrying on a trade in respect of the disposal. In part (c) candidates had to calculate the taxpayer's capital gains tax liability if he was not treated as carrying on a trade. This question was very well answered, and often helped marginal candidates to achieve a pass mark. In part (a) a number of candidates failed to score any marks because they did not state what did or did not indicate trading. For example, stating that the 'length of ownership' means how long an item has owned did not score any marks. It was necessary to explain that the sale of property within a short time of its acquisition is an indication of trading. Part (b) presented no problems for most candidates. In this type of question it is always best to produce full computations for each option. This will maximise marks if any mistakes are made. It was pleasing to see that many candidates correctly restricted the class 2 NIC to 18 weeks' contributions.

Question Five

Part (a) required candidates to state the factors that will influence a company's choice of loss relief claims. In part (b) candidates were then required to calculate a company's profits chargeable to corporation tax for four accounting periods. It was necessary to claim relief as early as possible for the trading losses made in two accounting periods. This question was not particularly well answered. In part (a) far too many candidates explained the loss reliefs available rather than the factors influencing the choice of claims. In part (b) many candidates approached this on a year by year basis, rather than one computation with a column for each of the four periods. This not only wasted time in having to write out four computations, but also made it very difficult to calculate the correct loss relief claims. Other common mistakes included treating the chargeable gains separately (rather than as part of the profits chargeable to corporation tax), and deducting gift aid donations from trading profits rather than total income after loss relief.