

Examiner's report

F6 Taxation (UK)

December 2010



General Comments

This paper continued in the same style as that of the June paper, with the aim of being less predictable and required candidates to think a bit more in order to achieve a pass mark. Although the overall result was satisfactory, the performance was not quite as good as expected. The main problems were that candidates were obviously not expecting a question on PAYE, and question four, although not being particularly difficult, required some careful planning before doing the computations.

Specific Comments

Question One

In part (a) candidates were required to calculate a taxpayer's taxable income. The taxpayer had resigned from one employment, and then commenced employment with a second employer. During the tax year he received various benefits including a beneficial loan, a place at a workplace nursery, the payment of gym membership fees, the use and then acquisition of an asset, the use of living accommodation, childcare vouchers, and the use of a company gym. In part (b) candidates were required to (i) explain the basis of calculating the taxpayer's PAYE tax code and the code's purpose, and (ii) describe the circumstances in which the PAYE forms P45, P60 and P11D form would have been completed, state who would have provided them, the information that would have been included, and the dates by which they should have been provided to the taxpayer.

Part (a) of this question was reasonably well answered, but **part (b)** caused problems for virtually all candidates. In **part (a)** there were no areas that consistently caused difficulty, although a surprising number of candidates did not appreciate that a bonus would have been assessed in the previous tax year as the taxpayer was entitled to it in that year. When calculating the beneficial loan using the average method, many candidates used a nil figure rather than the balance at the date of repayment. Candidates should try not to repeat their answers. For example, exempt benefits were often shown as such in the computation of taxable income, but were then shown again in subsequent notes. There is no need to do this. It was surprising in **part (b)** that very few candidates knew anything about the PAYE tax code, and not much more about the PAYE forms. This just seems to be an area of the syllabus that was not revised. As regards the PAYE forms, a bit of common sense together with the knowledge that form P45 is given when employment ceases, form P60 is given at the end of the tax year, and form P11D is in respect of the benefits provided to a taxpayer, would have meant that most of the marks were easily obtainable.

Question Two

In part (a) candidates had to (i) state which companies a company would be treated as being associated with, (ii) calculate the company's corporation tax liability (this involved the computation of a deduction for a lease premium, the computation of capital allowances, the treatment of overseas branch income, and the calculation of franked investment income), and (iii) advise the company of the taxation disadvantages of converting its overseas branches into 100% overseas subsidiary companies. In part (b) candidates had to (i) calculate the amount of output VAT payable by the company, (ii) advise the company of the default surcharge implications if it was late in submitting its VAT return and in paying the related VAT liability, and (iii) state the circumstances in which the company would be, and not be, required to issue a VAT invoice, and the period during which such an invoice should be issued.

This question was generally well answered, and there were many very good answers. In **part (a)(i)**, candidates should realise that when given a list of four companies, it is good exam technique to explain for each company whether it is or is not treated as being associated. In **part (a)(ii)**, the only aspect which consistently caused problems was the asset that was integral to a building. Although candidates correctly claimed the annual investment allowance against this expenditure, many candidates then claimed the 40% first year allowance on the balance of expenditure, rather than adding it into the special rate pool. Several candidates treated the lease

premium as income rather than as a deduction. Candidates should try to use a new page for large capital allowances computations. In **part (a)(iii)**, most candidates correctly stated that the conversion of the overseas branches into subsidiaries would increase the number of associated companies, but only a few were aware that UK loss relief and UK capital allowances would not then be available. **Part (b)(i)** was well answered, although a number of candidates did not appreciate that the tax point for services supplied was when the invoice was issued, as this was before the basic tax point or the date of payment. Some candidates showed (an incorrect) input VAT figure for the cost of fuel despite the question only requiring a calculation of the output VAT. **Part (b)(ii)** was not as well answered as would have been expected, and too many candidates simply explained the default surcharge rules without applying them to the company's situation. **Part (b)(iii)** was also often not well answered, with far too many candidates stating that a VAT invoice would not have to be issued if the company was not registered for VAT, when quite clearly it was registered.

Question Three

*This question was concerned with a taxpayer who was the controlling shareholder and managing director of an unquoted trading company. In **part (a)** candidates were required to explain why the taxpayer's disposal of ordinary shares in the company qualified for entrepreneurs' relief. **Part (b)** required a calculation of the taxpayer's capital gains tax liability (the gains involved were (1) the disposal of land to the company, (2) the gift of quoted ordinary shares following a takeover, and (3) the disposal of ordinary shares in the company from a share pool). **Part (c)** required a calculation of the company's corporation tax liability (the gain involved was a part disposal of the land bought from the taxpayer). The relevant due dates were required for both parts (a) and (b).*

This question was very well answered, with many perfect answers. It was often the question that made the difference between a pass mark and a fail. In **part (a)** the fact that the company was a trading company was often not mentioned. There were few problems in **part (b)**, although for the disposal of land it was not always appreciated that the relevant cost was that when it was inherited by the taxpayer. **Part (c)** generally caused a few more problems. Even when the part disposal rules were correctly applied to the cost of the land, many candidates did not appreciate that the same principle applied to the enhancement expenditure. It was disappointing that the annual exempt amount was often deducted when calculating the corporation tax liability.

Question Four

*This question was concerned with a director who was given the choice of being provided with a leased company motor car or alternatively being paid additional director's remuneration and then privately leasing the same motor car herself. In **part (a)** candidates had to advise the director of the income tax and national insurance contribution implications of (1) being provided with the company motor car, and (2) receiving the additional director's remuneration. In **part (b)** candidates had to advise the company of the corporation tax and national insurance contribution implications of (1) providing the company motor car, and (2) paying the additional director's remuneration.*

This question was generally answered quite badly, with the main problem being that candidates simply did not spend enough time thinking and planning their answers, but just plunged straight in performing every calculation that they could think of. In **part (a)** the answer was in fact very straightforward, with a fairly simple car benefit calculation and then income tax and NIC calculations at the director's marginal rates of 40% and 1% respectively. Far too many candidates calculated a fuel benefit despite being told that fuel was not provided for private journeys. In **part (b)** many candidates stated that capital allowances would be available despite the motor car being leased. Candidates often stated that the company's corporation tax liability would be increased rather than reduced as a result of the additional expenditure, and very few candidates appreciated that NIC was a deductible expense. **Part (c)** was more difficult, although credit was given for any sensible approach such as comparing the tax liabilities under each alternative.

Question Five

*In **part (a)** candidates had to calculate a taxpayer's taxable income and taxable gains for each of the tax years from 2005-06 to 2009-10. The taxpayer had made a trading loss in the tax year 2009-10, and the requirement was that this be relieved as early as possible, but without unnecessarily wasting personal allowances. Then in **part (b)** candidates had to explain why it was beneficial to carry loss relief forward against future trading profits rather than making a current year claim against a chargeable gain.*

This question was reasonably well answered. In **part (a)** many candidates did not appreciate that loss relief could be claimed against the chargeable gain, and it was disappointing that so many candidates included the chargeable gain as part of their taxable income computation. Another common error was to restrict the loss relief claims so as to preserve personal allowances, which of course is not possible. **Part (b)** was not so well answered since few candidates appreciated that carrying the loss forward would preserve the annual exempt amount as well as saving income tax at the rate of 20% and Class 4 NIC at the rate of 8%, rather than at 18% if relief was claimed against the chargeable gain.