

Examiner's report

F6 Taxation (IRL)

December 2011



General Comments

This examination paper consisted of five compulsory questions. The first two questions carried 25 and 30 marks respectively, question three carried 20 marks, question four 15 marks while question five carried ten marks. Almost all candidates attempted all five questions and all parts of questions. There did not seem to be a problem with time management.

The candidates overall performance in this paper was good. Candidates scored well in questions 1(a), 3(a) and all parts of question five.

Performance of candidates could improve if they could:

- Familiarise themselves with all topics covered in the syllabus
- Be aware of syllabus changes and new topics being introduced
- Lay out their workings in a more comprehensive manner
- Candidates repeating should take time to learn the changes brought in by successive Finance Acts.

Specific Comments

Question One

- (a) (i) Generally candidates answered this part of the question very well. Sometimes the computations prepared by students were very messy; a final summary of all years and all partners is a good idea. It is very important where a question is assessing profits under Case I/II that candidates state the tax year in question i.e. 2010 or 2011, it is not good enough to state Year 1 or Year 2. Marks cannot be awarded where this approach is taken as it is important to know in what year the taxpayer will be assessed on income earned.
- (ii) Some candidates are still having problems with balancing allowance computation. It was good to see most knew the percentage of the capital allowances that were due to Simon.
- (b) Overall I would say that this part of the question was poorly answered. Candidates were very competent at calculating the income earned and the tax credits due, with some exceptions. However many did not know that they needed to calculate the combined income liability of Simon and Joan as single persons and then their income liability on a joint assessment basis. Many candidates did either single or married.

In relation to tax credits, I was surprised by the number of candidates who deducted medical expenses as a relief and also by the number who gave some type of tax relief be it as a relief or a non refundable tax credit for medical insurance.

Question Two

(a) (i) This question tested candidates' corporation tax computational abilities, in particular, industrial building allowance, add-backs for disallowed expenses, and profits earned by a branch.

Candidates scored well on identifying the addbacks. Some candidates were competent in dealing with the computation of the balancing charge on the disposal of the industrial building, others not. The depreciation rate of 2% mentioned in the question led to some students calculating the industrial buildings allowance (IBA) at 2%, rather than 4%. Many missed the fact that the balancing charge would be restricted to the allowances given. Most students ignored the branch profits.

(ii) It is important to remember that Irish dividend income is exempt from income hands in the hands of an Irish registered company. The non trade charge was ignored completely in the tax computation instead of being offset against investment income.

(b) (i) Overall the marks achieved by the students were fairly good. Some solution layouts were difficult to follow. Candidates should be careful to follow the instruction in the question as to the order that they are requested to assign the loss.

Question Three

(a) This question tested candidates' capital gains tax (CGT) computational abilities on general areas of asset disposals.

1. Did not cause any problems for candidates generally. Many did not divide the proceeds between current use and development. The benefit of splitting the transaction was to determine whether there had been a development loss or a current use loss. Depending on which, it could affect how the loss could be offset.
2. Many candidates had difficulty in calculating the cost of the land being sold. They did not realise to use the part disposal formula.
3. Marginal relief was very well answered.
4. Should have been straightforward but many did not know that the pony was a wasting asset.
5. Well answered, almost all knew that the non remittance of the proceeds into Ireland was irrelevant.

(b) (i) The solutions here could have been laid out better, recognising the initial and later period. A fairly frequent mistake here was to calculate the capital gains tax and then to offset the annual exemption.

Question Four

This question examined various aspects of residency and domicile. Part (a) was either very well answered or very poorly answered. Some only had a vague idea as to what the terms meant. This area could do with improvement.

(b) Where part (a) was well answered, then so too was part (b).

Question Five

This question was in general very well answered. Candidates knew how to apply the cash basis of accounting and to calculate the amount of value added tax (VAT) on sales and purchases correctly. A small number of candidates did not recognise that the figures given were VAT inclusive and therefore required adjustment. In all VAT questions students should always check as to whether they are dealing with figures that are VAT inclusive or exclusive.