

Examiner's report

F6 (IRL) Taxation December 2015



General Comments

There were two sections to the examination paper and all of the questions were compulsory. Section A consisted of 15 multiple choice questions (two marks each) which covered a broad range of syllabus topics. Section B had six questions, four of which were worth 10 marks each and two longer questions worth 15 marks. The questions examined the main syllabus areas of Corporation tax, Income tax, Capital Gains Tax and Value Added Tax. The following paragraphs report on each section and focus on some of the key learning points.

Specific Comments

Section A

It was very pleasing to see that almost all candidates attempted all of the questions. Candidates preparing for the next examination of F6 are advised to work through the MCQ's on the past two papers and sample questions discussed here and to carefully review how each of the correct answers were derived. Section A questions aim to provide a broad coverage of the syllabus, and future candidates should aim to revise all areas of the F6 syllabus, rather than attempting to question spot. The following three questions are reviewed with the aim of giving future candidates an indication of the types of questions asked, guidance on dealing with exam questions and to provide a technical debrief on the topics covered by the specific questions selected.

Sample Questions for Discussion

Example 1

Peter is aged 50 and has the following income for the tax year 2014:

	€
Schedule D Case II	120,000
Schedule D Case IV (Irish deposit interest - gross)	5,000
PAYE income	10,000

What is the universal social charge (USC) payable by Peter for the tax year 2014?

- A. €9,019
- B. €8,769
- C. €8,419
- D. €9,319

The purpose of the question was to test a candidate's knowledge on what income is liable to USC where a taxpayer is aged under 70 years, and what are the correct rates of USC to be applied (the USC rates and the amount of income bands at rates has changed for 2015, however the income liable, the surcharge rate and rules remain the same). USC is a tax payable on gross income, including notional pay, after any relief for certain capital allowances, but before pension contributions. There is a surcharge of 3% on individuals who have non-PAYE income that exceeds €100,000 in a year.

Income already subject to DIRT is exempt from USC.

The correct answer was A

Income subject to USC - €120,000 + €10,000 = €130,000

€10,036 x 2% = €201

€5,980 x 4% = €239

€113,984 x 7% = €7,979

€130,000 €8,419

Surcharge on non-PAYE income (€120,000 - €100,000), relevant income

€20,000 x 3% = €600

Total USC = €9,019

Example 2

John had gross income of €80,000 for the tax year 2014. During 2014, he entered into a deed of covenant and agreed to pay €8,000 per annum to his father, aged 70, for the next eight years. John also paid permanent health insurance of €1,200 during 2014.

What is the amount of the covenant on which John can receive tax relief in the tax year 2014?

- A. €8,000
- B. €4,000
- C. €3,940
- D. €0

Any amount can be paid under a deed of covenant but only covenants in favour of certain individuals qualify for tax relief. As the covenant is in favour of an adult aged at least 65, tax relief is available but restricted to 5% of John's total income. The candidate must then know the definition of total income. Total income is gross income less charges. We have very few charges, they are covenants, interest on money borrowed to invest in qualifying partnerships and royalties. In this case the gross and the total income are the same amount ie €80,000 and 5% of €80,000 is €4,000. The deduction due to John for the permanent health insurance is a relief and will not affect the total income figure.

The correct answer was B

Example 3

Which of the following value added tax (VAT) charges are NOT available as an input tax credit to a VAT registered trader?

- (1) VAT charged on the lease payments for a delivery van
- (2) VAT charged on meals and accommodation for a sales representative
- (3) VAT charged on the diesel for a delivery van
- (4) VAT charged on an invoice that does not contain the customer's VAT number

- A. 1 and 3
- B. 2 only
- C. 2 and 4 only
- D. 1, 2 and 4

This MCQ is a theory question asking the students to select items on which input tax credit cannot be claimed. A valid VAT invoice must contain the VAT number of the trader but does not need to contain the VAT number of the customer. The customer number is only needed in the case of a zero-rated intra-community supply, this scenario is not within the scope of this question.

It is important that candidates read the question and the options carefully.

The correct answer was B.

Section B

Question One

This 10-mark question covered the corporation loss relief area.

In this question there were three accounting periods, the period in which the loss was incurred was nine month long. There were two trades being carried on in the company and the company also had rental income and capital allowances.

The question was generally well answered, some mistakes were made and candidates should be aware of the following:

- The loss being carried back for offset against Case I income should be restricted by 9/12
- When the loss was being relieved on a value basis against other income the corporation tax should first be calculated and then relief should be given against the tax
- A case V loss can only be offset against other case V income of this period, carried back against corresponding income of a previous accounting period of the same length and then carried forward for use against corresponding future income. Also excess Case V capital allowances that arise to the lessor of an industrial building can be offset in the current or immediately preceding accounting period of the same duration against relevant income on a € for € basis. The taxpayer will choose to offset them against profits taxed at 25% in the first instance. Any balance of unused capital allowances will be carried forward and used in a later accounting period.

Where the question specifically requests a loss memo one should be prepared. It is always good to prepare a loss memo as it reinforces the order in which the relief should be claimed.

Question Two

This 10 mark question examined the capital gains tax (CGT) area of the syllabus.

Part 2(a).

There were three parts to this question, most candidates got full marks on part (b), the part disposal rule in part (c) was widely known and applied properly. Part (a) did cause some problems as some candidates incorrectly concluded that, because the disposal was a principal private residence (PPR), any gain was therefore exempt. It should be noted that the gain is taxable as there is a development aspect to the disposal of the PPR.

Part (b)

Most candidates did the calculation correctly however it is important to note that the annual exemption is given before CGT is calculated.

Question Three

This 10-mark question examined the value added tax (VAT) area of the syllabus.

Part (a) for 3 marks required the candidate to state when the trader should register for VAT. Information was given in the question and the answer should have been within the context of the information provided and not a general discussion on registration. A substantial amount of candidates did not answer how a trader should go about registering for VAT.

Part (b) was well answered.

Part (c) The two thirds rule was generally known, some candidates suggested applying a 23% for parts and a 13.5% rate for work, this in practice would give the customer a higher bill and would not be the best option.



Part (d) Candidates should be careful that they express themselves properly when they answer non-computational questions. This part was well answered but answers could be rambling at times.

Question Four

This 10-mark question examined rental income, capital allowances and trading losses.

This question was very well answered, candidates were very knowledgeable on computing the amount of the rent premium that is taxable, the amount of the industrial building allowance, capital allowances on plant and motor vehicles.

Candidates should note that where a trader has capital allowances and trading losses brought forward that this years capital allowances are offset before relief is taken for losses brought forward. Also the Revenue will not apply a balancing charge where the sale proceeds are less than €2,000.

Question Five

This was a 15-mark income tax question.

Part (a) was based on the preparation of an income tax computation for a divorced person who receives maintenance payments.

Candidates were well prepared and answered this part of the question well. It should be noted that tax relief for donations to charity is no longer available to the donor but that where all conditions are satisfied contributions received by the charity may be added to by the Revenue. Where the single person child credit is claimed the standard rate tax band is increased. Candidates should be aware that this information is contained in the tax reference material as is information on the relief for expenditure on third level fees.

Part (b) was poorly answered. The main cause of this was candidates failing to discuss the badges of trade in trying to determine whether a trade was being carried on. Some candidates discussed very relevant factors but this was outside the scope of the question.

Question Six

This 15-mark question was on the calculation of a corporation tax liability for a company with trading income, investment income and the disposal of an asset.

Candidates are now used to and applying the new format for answering, showing zero's where addbacks are not required. The treatment of car leasing costs is still causing some trouble with candidates mixing up/not knowing the formula for the calculation of the restriction. The adjustment of the capital gain for inclusion in other income of the company was well answered. This was one of the best answered questions on the paper.