Examiner's report
F6 (IRL) Taxation
December 2016

ACCA

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, Value Added Tax and Administration of the Irish taxation system. The following paragraphs report on each section and focus on some of the key learning points.

Specific Comments

Section A

Almost all candidates attempted all of the questions. Candidates should be reminded that it is in their interest to select one of the choices to each question as there is nothing to be gained by omitting an MCQ.

Section A questions aim to provide a broad coverage of the syllabus, and candidates should aim to revise all areas of the F6 syllabus, rather than attempting to question spot. The following questions from the December 2016 exam 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 from Section A

Example 1
This is a non-computational MCQ and examined capital allowances, relevant to both Income tax and Corporation tax.

Which of the following conditions must be met in order for a company to claim capital allowances on plant and machinery?

(1) The asset must be in use for the purpose of the trade at the end of the accounting period.
(2) The asset must be paid for in full.
(3) The company must be making a profit.
(4) The asset must be functional to the operation of the trade and not regarded as part of the setting.

A (1) and (4) only
B (1), (2) and (4)
C (1) and (3)
D (2), (3) and (4)

The purpose of the question was to test a candidate's knowledge on when capital allowances can be claimed on plant and machinery used by a business. It is important that candidates are aware of these conditions and know when capital allowances can be claimed not just know how to calculate capital allowances.

The correct answer was A

In order to claim capital allowances a business must have incurred expenditure on Plant and Machinery. The first test carried out is to determine that the asset is functional to the operation of the business as distinct from being part of the setting. The business must be the legal owner of the asset and the asset must be in use on the last day of the accounting period for which you wish to claim the capital allowances.

However, having incurred the expenditure there is no requirement that the asset has actually been paid for at the end of the accounting period, as long as the business has the legal obligation to pay for the asset at some future date. It is also important that any expenditure to be allowed for capital allowance purposes should be money spent on the asset itself and not on the finance to acquire the asset.

Example 2

Forest Ltd's corporation tax liability for its year ended 30 June 2015 is €180,000. The company filed its corporation tax (CT) return for this year on 31 May 2016.

What is the penalty surcharge that will be imposed on Forest Ltd?

A €18,000
B €9,000
C €12,695
D €63,485

The correct answer was A

A penalty surcharge applies where a company fails to deliver a return of income on or before the specified date. As the company has now filed late the specified date that is relevant is 21 March 2016 (the ROS extension to 23rd is ignored in cases of late filing). By filing the return on the 31 May 2016 the return is more than two months late and the penalty will be the lower of 10% of the company's tax liability or €63,485. In this case that will be 10% of €180,000, €18,000.

Section B

Question One examined the application of value added tax (VAT) rules in preparing a VAT return.

Part (a) This part of the question was well answered.
It was good to see that most candidates correctly treated the Irish and UK sales correctly. Most candidates are aware of and correctly applied the reverse charge principle to the EU purchase of goods from the EU.
The issues that did cause some problems were:

(i) Deposits received from a customer.

A VAT invoice must be issued to a customer by the 15th day of the month immediately following the receipt of a part payment in respect of goods or services, the supply of which has not been completed.

(ii) Goods purchased from a US supplier

VAT will be charged on goods that are liable to Irish VAT when those goods are purchased from businesses outside the EU. The VAT is charged at the point of entry into Ireland. The VAT is applied to purchases of goods made by individuals and businesses. The only exception is where a business has a VAT 56 Authorisation, this will be available where 75% or more of businesses turnover is made up of exports and/or dispatches to the EU member States or else the work that is being imported will subsequently be exported. As there was no mention of the VAT 56 Authorisation in the question and nothing to imply that one existed, the correct treatment was that VAT was charged on the goods at the entry point into the State.

(iii) VAT on the decorator's bill

The decorator's invoice was not a valid VAT invoice as it did not show the suppliers VAT registration number.

(iv) Goods taken by the business owner for his own use.
Where goods are appropriated by an accountable person for their own use, the taxable amount for the purpose of charging VAT is the cost to the accountable person of acquiring the goods. In this instance the cost of the goods should have been shown as a sale and the value of the sale excluding VAT is the cost of the goods to the business.
Part (b), most candidates correctly stated VAT would be charged at the Irish standard VAT rate. The question asked for the reasons VAT would be chargeable but in a large number of cases none were offered.

Question Two

This 10 mark question examined (a) Income tax losses and (b) How an omission of income should be dealt with by a taxpayer.

(a) This question was poorly answered. Candidates were not comfortable with how Case I losses can be relieved. Very few candidates were aware of the changes introduced in the FA14 that restricted loss relief against all income, for persons engaged in a "non-active capacity".

Candidates should also note that a trade loss forward can only be offset only against income from the trade in which the loss arose.
It is important to know how income tax losses are relieved and to not get confused with corporation tax losses.
Candidates should be careful not to do more work than required when answering questions, in this question the requirement was to compute the taxable income and not the income tax payable.

(b) Many candidates did not answer the question asked and did not adequately discuss the benefits of making an unprompted disclosure.

Question Three

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

(a) This was generally well answered, however the following points are worth noting:

Enhancement expenditure incurred on an asset can be treated as a deduction for CGT purposes, however such expenditure must be reflected in the asset at the time of disposal. As the expenditure on the bicycle shed was not reflected in the asset at the time of disposal it was not an allowable deduction.
Wasting assets when used for business purposes are liable to CGT if a gain arises but where a loss in incurred the loss is relieved through capital allowances. The first step was to see if a loss or a gain arose on the disposal of the asset by comparing the sales proceeds with the cost, when this showed a loss no further work was required to be carried out. Many candidates calculated the balancing allowance/charge on the asset which is not necessary for CGT purposes, and is only required for income/corporation tax.
The goodwill, the inventory and the Government securities were generally correctly dealt with. The book collection while generally correct was said by some to be outside the scope of CGT as it was a gift, candidates should note that CGT arises on the "disposal" of an asset, ie where an individual gives up their rights to the asset and so a gift is a disposal. The general exceptions are death and the transfer of assets between Irish resident co-habiting spouses.

(b) Many candidates were not able to explain what an Irish specified asset was, however many did give two examples of same.

Question Four

This 10-mark question on Corporation tax losses was generally well answered.

Part (a) The question stated that the chargeable gain, that arose in the period ended 31 December 2015, had been adjusted, this meant that the 12.5% rate of tax would then apply to this gain. Just a reminder to students to lay out the answer clearly so that their workings and reasoning can be followed in order to allow them to earn the maximum marks possible.

Part (b) As the accounts were filed less than two months late the loss relief would be restricted by 25% in the current and the preceding loss periods but not subsequent periods. Many candidates did not calculate the revised tax bill for the 31 December 2015 period.

Question Five

This was a 15-mark income tax question, candidates are generally well practiced in the layout of the computation and overall it was well answered.

It is important that candidates should know which expenditures are relieved under Reliefs and which are relieved under Non-refundable tax credits. Tax bands and personal credits were generally correctly applied. The pension relief calculation was generally correct.
It was disappointing that a number of candidates were unable to correctly calculate the home renovation incentive (HRI) tax credit. This is a relatively new tax credit and is being widely claimed by taxpayers.

Question Six

This 15-mark question, part (a) was on the calculation of a fairly straight forward corporation tax liability computation, and candidates performed well.

Candidates are now following the new format for answering, showing zero's where addbacks are not required. The question layout was slightly different in that the question showed Trading profit after deducting expenses and then separate from that it showed other income and proceeds. Candidates incorrectly assumed that the trading profit included the other income. This error did not result in loss of marks to candidates due to the own figure rule (OFR).

In note 5, Alfor Ltd disposed of a site and incurred a chargeable gain, this gain as it arose on development land was liable to capital gains tax (CGT) and not corporation tax. While most candidates calculated the gain correctly they applied the incorrect tax to the gain.

The filing date in part (b) was generally correct.