

Examiner's report

F6 Taxation (IRL)

June 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 four questions worth 10 marks each and two longer questions worth 15 marks, each testing the candidates' understanding and application of the various taxes. This is the first examiner's report since the introduction of the new exam format and question types. The following paragraphs report on each section and focus on some of the key learning points.

Specific Comments

Section A

It was pleasing to see that almost all candidates attempted all of the questions in Section A. Candidates preparing for the next examination of F6 (IRL) are advised to work through the specimen questions and the questions contained in this paper 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 (IRL) syllabus, rather than attempting to question spot. The following question is 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 topic covered by the specific question selected.

Sample Question for Discussion

Example 1

Andrew commenced to trade on 1 July 2012. He prepares accounts to 30 June annually. The following are his tax adjusted trading profits.

	€
Year ended 30 June 2013	42,000
Year ended 30 June 2014	36,000
Year ended 30 June 2015	48,000

What is the amount of Case I income on which Andrew will be assessed to income tax for 2014?

- A €36,000
- B €42,000
- C €33,000
- D €39,000

This question tested the rules on determining the amount of income assessable on a sole trader in a situation where the sole trader is commencing to trade. This is a core area of income tax. The key to passing this type of question was to apply the commencement rules, and to be aware of which year you were being asked to deal with. As the business commenced in 2012, the profits assessed in 2014 (the third year of commencement) will be the profits arising in the twelve months ending in the third year, i.e. those to 30 June 2014. These may be adjusted downwards where the actual income of the second year (2013) is less than the amount initially assessed i.e. profits for the year to 30 June 2013. This adjustment downwards occurred in this question. The correct answer is C.

Section B

General Comments

The vast majority of candidates attempted all six questions, and, while there was little evidence of time pressure, the paper requires that candidates apply their time wisely to questions. Where questions were left unanswered by candidates, this appeared to be due to a lack of knowledge or poor exam technique, as opposed to time pressure.

Candidates performed particularly well on questions 1 and 3. The questions candidates found most challenging were question 2 (b), transaction 1 in question 4, and certain aspects of questions 5 and 6. This was mainly due to candidates not understanding core syllabus areas well enough or not interpreting the information provided correctly

A number of common issues arose in candidates' answers as follows:

- Failing to read the question requirement clearly and therefore providing more calculations than were necessary.
- Poor time management between questions, some candidates wrote far too much for some questions and this put them under time pressure to finish the remaining questions.

The layout of answers was generally good and candidates provided numbered links to their workings.

As a general piece of advice, where a candidate has studied tax for a tax year prior to the one being examined, they should be sure to be aware of changes to tax rates, bands and new amendments to the legislation.

Question One

Part (a) for 6 marks required candidates to determine the residence, ordinary residence and domicile of a taxpayer, Carmen, and explain the reasons behind their conclusions. This part of the question was well answered by the majority of candidates. Where difficulties in answering did arise, it was usually because candidates did not know the exact number of days that are required for residency. The majority of candidates demonstrated a good knowledge of ordinary residence and domicile, although where problems arose it was due to the candidates being confused between the two terms.

Part (b) was also generally answered well. The requirement of the question was to compute Carmen's taxable income, however many candidates went on to calculate the amount of tax payable for which no marks were available.

Question Two

This 10-mark question examined corporation tax losses within a group structure.

Part (a) for three marks required candidates to determine whether companies A Ltd, B Ltd and C Ltd were in a group for loss relief purposes. While generally well answered, not all candidates stated the 75% shareholding rule. In addition, some candidates concluded correctly that companies A Ltd and B Ltd were in a group but failed to see that companies B Ltd and C Ltd were also in a separate group although this did not affect the answers to part (b)

Part (b) was for seven marks and was reasonably well answered. The most common errors made were:

- A Ltd's brought forward trading loss was incorrectly added to the current year trading loss of A Ltd. Candidates should note that group loss relief can only be claimed using current year losses.
- The capital loss of A Ltd was offset against the chargeable gain in B Ltd. Candidates should note that capital losses cannot be transferred to other companies, an alternative approach should be used by companies who may need to avail of such losses.
- When using S420B loss relief in A Ltd, some candidates just offset €10,000 of the loss against the Case V income. Rather, it is important to calculate the tax first and then to give relief on a value basis.
- The chargeable gain in B Ltd was frequently not adjusted before tax was computed.

C Ltd's tax liability was generally calculated correctly.

Question Three

This 10-mark question examined value added tax (VAT). It was a practical question and was generally very well answered.

However, a mistake that was frequently encountered was that the sales to Northern Ireland customers, who were not VAT registered were recorded at 0% instead of the lower rate of 13.5%. In addition, the question was based on a company and the spare parts purchased were used by the company for repairing the companies' own equipment, so VAT could be reclaimed on this purchase, there was no issue here of a self-supply.

The question required candidates to indicate by zero any items on which VAT would not be charged or claimed and while many correctly did this in relation to the meals and drinks, a number did not.

Candidates were not required to state the filing date for the return although many gave this. Candidates should note that providing information which is not asked for in the requirement results in a loss of time on something that carries no marks.

Question Four

This 10-mark question was based on a capital gains tax (CGT) computation for an individual. In general the question was well answered but there were a number of candidates that did not seem to have studied this area at all.

The question was divided into three different transactions, which are considered below in turn:

- (1) The standard of answering in the share disposal question was not satisfactory. Candidates often stated that the FIFO rule was to be used but then could not apply it in their answers. Also, where indexation is available and shares are being sold from two different time purchases, candidates should note that there should be two separate share disposals shown. This is to ensure that you do not have a hidden no gain/no loss situation. If there was no indexation, then one disposal would be fine.
- (2) Some candidates mixed this transaction up with marginal relief. Other candidates appeared not to know the small chattels exemption limit of €2,540.

(3) Generally very well answered.

There was no requirement to calculate the amount of CGT payable and again by doing so some candidates used their valuable time on work that did not carry any marks.

Question Five

This 15-mark question required candidates to prepare an income tax computation. The question was adequately answered but the following points are worth noting as they demonstrate the mistakes most commonly made:

- Alice is aged 67, the question stated that she received bank deposit interest gross. Therefore, there was no need to adjust this figure as DIRT had not been deducted from Alice at source by the bank, and so there was no DIRT tax credit
- Alice received income from a contributory pension, she did not make pension contributions
- Alice used her own car for work purposes and so was entitled to claim capital allowances against her Schedule E income
- There were no medical expense reliefs in this question i.e. at the marginal rate. Tax relief was at 20% for the qualifying medical expenses paid by Alice for Trudy and this is given as a non-refundable tax credit
- As Alice is the secondary carer for her grandson she may claim the single person child carer tax credit and the increased standard tax band of €36,800. Where a candidate considered the primary and secondary carer issue, marks were awarded accordingly
- In relation to the rental income, it is important to note that local property tax is not an allowable expense. In this question the expenses do not need to be restricted in accordance with the number of months for which the property is let as these expenses are between letting expenses. The interest is on a residential property and should be restricted to 75% of interest paid
- The deposit interest does not need to be taxed at 41% as Alice is not liable to DIRT
- The Irish dividends received are taxed at either the standard or marginal rate, depending on the size of the individual's income
- The home carer tax credit is not applicable due to the size of Alice's income. She is widowed without dependent children herself so she receives the widowed person's tax credit.
- Relief for medical insurance is given at source, there is no tax relief for routine dental care and the qualifying medical expenses paid on behalf of Trudy are relieved at 20% giving rise to a non-refundable tax credit.

Finally there was no need to calculate USC and PRSI as the question did not require this.

Question Six

This 15-marks question required candidates to prepare a corporation tax computation.

Candidates were advised by the requirement in this question that all items referred to in the notes needed to be listed in the computation with a candidate indicating by the use of a (0) where items do not require adjustment. Candidates should have been familiar with this approach as it was illustrated in the specimen questions and also in a recent exam technique article available on the ACCA global website.

Many candidates failed to read the information provided in relation to the other income. The question stated that the other income had **not** been included in the net trading income figure and this meant that it did not need to be deducted from net trading income. The compensation for loss of profits was taxable as income and should have been added back as Case I income.

Adjustments required by Notes (1), (2), (4), and (5) generally did not cause any problems to the majority of candidates. In relation to the motor expense add-back, it should be noted that when computing the allowable motor expenses for the company the private usage of motor cars is irrelevant, this does not generate an addback (as it would in the case of a sole trader). When applying the motor car lease expense restriction, the formula was frequently incorrect. Candidates should note that the formula is: $\text{Leasing charges} \times (\text{Cost of car} - \text{Relevant limit}) / \text{Cost of car}$ – instead many candidates incorrectly put the relevant limit below the line in the formula.

Many candidates also failed to pick up on the fact that the hotel when sold was outside of its tax life and so there was no balancing charge. There was no need to calculate the gain on the disposal of the hotel as the gain was given in the question. Again, candidates should be careful not to waste their time doing calculations where the information is already given to them.