

Examiner's report

F6 (IRL) Taxation

June 2017

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 consisted of six questions, four of which were worth 10 marks each and two longer questions worth 15 marks each. The questions examined the syllabus areas of corporation tax, income tax, capital gains tax, value added tax and administration of the Irish taxation system.

Specific Comments

Section A

It was encouraging to see that the vast majority of candidates attempted all of the section A questions. Candidates should be aware that it is in their interest to answer every section A question as no marks are lost for an incorrect answer.

Section A questions examine a broad coverage of the syllabus, and candidates should aim to revise all areas of the F6 syllabus, rather than only revising certain topics based on the areas they think are likely to be tested.

The following two questions from the June 2017 paper are reproduced here in order to provide future candidates with an indication of the types of questions set, guidance on dealing with section A questions and a technical debrief on the topics covered by the specific questions selected.

Example 1

James carries on two separate trades, for which he prepares accounts annually to 31 December; and also has rental income. The results of these activities for 2015, 2016 and 2017 are as follows:

	Trade 1	Trade 2	Rental income
	€	€	€
2015	25,000	10,000	6,000
2016	(95,000)	12,000	7,000
2017	8,000	14,000	7,500

What is the amount of James' loss forward at the end of 2017 if he decides to use his loss relief at the earliest possible time?

- A €5,500
- B €33,000
- C €43,000
- D €68,000

The correct answer is D.

This question was testing the way in which trade losses can be offset against an individual's income. It is important to note that only trade losses incurred during the last 12 months of operation of a trade may be carried back to previous tax years, for offset only against the trade profits for the prior three years of assessment, for the trade that is ceasing.

In all other instances the trade loss may be used in the current year against all other income and/or carried forward indefinitely and used in future years. However, a carried forward loss can only be offset against income from the trade in which the loss was incurred. So the loss of €95,000 is offset against the other income arising in 2016 of €19,000 (€12,000 and €7,000) and against the €8,000 income from the same trade in 2017, giving a loss carried forward at the end of the 2017 tax year of €68,000 (€95,000 - €19,000 - €8,000).

Example 2

On 1 May 2016 Ciara sold her motor car for €26,000. She had bought the motor car in August 2015 for €24,000 from a friend. The motor car is a category B car. Ciara is a self-employed risk assessor, who prepares her accounts to 31 December every year. Ciara used the motor car 80% for her business and she claimed capital allowances on the motor car in 2015.

What is the amount of the capital gain on which Ciara will be assessed on the disposal of the motor car?

- A €0
- B €2,000
- C €5,000
- D €1,600

The correct answer is D.

The first thing to check is whether the disposal of the car is within the scope of capital gains tax (CGT). The car is a wasting asset but because it is used for business purposes it is within the scope of CGT.

The next thing to check is whether a gain or loss has arisen on the disposal of the car by comparing the sales proceeds of €26,000 with the cost of the car of €24,000. In this instance a gain of €2,000 has arisen, but only the business use proportion of the gain is taxable, resulting in a capital gain of €1,600 (€2,000 at 80%).

If a loss had arisen on disposal of the car, CGT relief for this loss would not be available. This is due to capital allowances and a balancing allowance being available under the income tax rules that would provide full relief for the amount of the loss.

It is important to note that the category of the car is irrelevant in calculating a gain for CGT purposes. The category is only relevant for calculating capital allowances for income tax.

Section B

Question One

This 10 mark question covered the topic of corporation tax losses in a group.

Although there were some excellent answers to this question, overall it was not answered very well.

In this question all accounting periods were 12 months long and it was necessary to first assign the trade loss arising in AB Ltd to the previous year's trade income. The remaining loss is then assigned to AB's investment income of the current year and then the investment income of the previous year on a value basis.

In addition to trading and investment income AB Ltd had two chargeable gains arising in the current year. One arose on a trade asset and was within the scope of corporation tax for companies and the other arose on development land, and this gain was liable to CGT. The trade loss could only be offset against the gain on the disposal of the storage unit, but before this could be done this gain needed to be adjusted.

In answering the question candidates often failed to see the difference between the two gains and many adjusted both gains by the factor 33%/12.5%.

It was disappointing to see many candidates not giving relief on a value basis for the Case III income. The tax on the investment income needs to be calculated and S396B relief then applied. The excess trade loss was then available to XY Ltd but as it is a group loss it was not available for carry back to 2015.

The capital loss incurred by XY Ltd could only be relieved by carrying it forward to be offset against gains in XY Ltd that might arise in future years. Offset of a chargeable loss against income is not permitted.

When dealing with groups candidates need to deal with the company in which the loss arose first if that company wishes to use the loss themselves, and then the other group companies. It is not permitted to merge the income of the companies and deal with as one.

Finally, it is good practice in the exam and in candidates own studying to prepare a loss memorandum, whether or not it is stated as a requirement, as it shows the flow of losses being assigned and makes for a clearer understanding on the rules of loss relief.

Question Two

This 10 mark question examined the VAT area of the syllabus.

Part (a) of the question was very well answered and it was pleasing to see candidates dealing correctly with figures that were VAT inclusive and VAT exclusive. The EU acquisition was also treated correctly in most cases.

Some candidates did mistakenly allow VAT on the food and drink for the Christmas party. It is important to remember that while the Christmas party is an allowable expense in calculating the Case I/II income of a business, the corresponding VAT is not deductible for VAT purposes, as VAT on food and drink is never deductible.

Both elements of part (b) were generally well answered. An additional point that candidates should consider is that if you are carrying on an exempt business you are not allowed to register for VAT unless EU acquisitions by the business exceed €41,000 in a continuous 12 month period.

Question Three

This 10 mark question covered the topic of capital gains tax (CGT). Candidates were required to compute the CGT liability for two married tax payers as a result of four disposals.

This question was generally well answered. However for some candidates their knowledge of CGT was inadequate.

For disposal (1) in general candidates knew to apply the FIFO rules for disposal of shares and to use a WAC approach for that shares within a batch. The disposal from the first batch of shares did not cause a problem. However for the second batch of shares many failed to recognise that the bonus issue did not apply as the date of the bonus issue was before the purchase of these shares.

Disposals (2) and (3) were on the whole well answered. For disposal (2) many of those who incorrectly answered this part did so because they calculated the gain of €2,500 and then stated that it was exempt as it is below the exemption limit for small chattels of €2,540. Candidates are reminded that the small chattels exemption applies to sales proceeds of €2,540 or less and not capital gains of €2,540 or less. While many candidates correctly applied marginal relief to disposal (2) they failed to add on this amount of tax to arrive at the total CGT payable.

In disposal (4) the taxpayer sold a camera that he used for his hobby. This is a wasting asset and as it was not used for business, the disposal is outside the scope of CGT.

Even though the couple are married, only Kate makes taxable disposals, so only one annual exemption is available. It is important that candidates apply the annual exemption first and then the tax rate at 33%. If the calculation is not done in this order it gives a very different amount of tax to be paid.

Question Four

This 10 mark question examined the income tax topics of domicile and residence, and contract of and contract for services.

Parts (a) (i) and (ii) were generally very well answered. Candidates should be aware that if they are asked to determine whether someone is resident in Ireland they should conclude on this only and not conclude on their residency status elsewhere as they are not expected to be aware of the rules of residency for other countries.

In part (a) (iii) candidates were generally more uncertain what income is taxable in Ireland. Candidates should also only answer the question asked and should not expand the scope of the question.

Part (b) on contract of or for service was answered well by most candidates. Some candidates did not give reasons/factors to be considered in determining which type of contract was in place and instead discussed the implications of being an employee from a PAYE viewpoint. Candidates should also note that just because you complete your own income tax return online and say you are self-employed, this is not a factor in determining your employment status.

Question Five

This 15 mark question was a straight forward income tax computation for a married couple. It examined core income tax issues and candidates were generally well prepared and therefore performed well in this question.

In determining the benefit in kind (BIK) on the car it is important to remember to use the original market value of the car. The BIK on the loan needed to be time apportioned. Candidates were unsure of the benefit to be taxed on the exercise of the share option. Most candidates recognised the rent a room relief but it was surprising to see how many included child benefit as taxable.

While tax credits were correctly applied by most students, the medical expenses credit was often deducted as a relief rather than as a non-refundable tax credit.

It was surprising to see a small number of candidates calculate the income tax at the end of the computation after having deducted tax credits, rather than on total Income less reliefs.

Mistakes were often made in calculating the amount of income to be taxed at 20%. Candidates should note that the €42,800 20% tax band can only be increased by the income of the lower earning spouse, subject to an overall maximum of €24,800.

Question Six

This 15 mark question tested the core syllabus area of corporation tax.

The question was generally well answered; with add backs and deductions well laid out using the now established format of stating the item to be added back/deducted with the relevant amount or using a zero where no adjustment is required. Candidates are advised to apply this format rather than any alternative approach.

The chargeable gain is adjusted by a factor of 33%/12.5%. Many candidates did not carry out any adjustment and incorrectly taxed the gain at either 20% or 25%.

The computation of the balancing allowance on the delivery van was mostly calculated correctly. Candidates should be aware that it is the sales proceeds and the tax written down value that are compared and not the sales proceeds and the total capital allowances claimed to date.

One other point to note is that there is no upper limit on the amount to which capital allowances are available for vans as there is for cars. Many candidates restricted the amount for calculation of capital allowances on the delivery van to €24,000.