

# Examiner's report

F6 (CYP) Taxation

June 2014



## General Comments

The examination consisted of five compulsory questions (question 1 for 30 marks, question 2 for 25 marks, question 3 for 20 marks, question 4 for 15 marks and question 5 for 10 marks).

The vast majority of candidates attempted all five questions, and there was little evidence of time pressure. 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.

A limited number of candidates continue to present their answers poorly, with a lack of clear labelling to indicate which questions are being attempted. Questions divided in sections must be answered separately by section and not answered as a single question.

Candidates performed particularly well on questions 1 (a), 1 (b), 2 (b), 3 (b) and 5 (a). The questions candidates found most challenging were questions 1 (d), 2 (a), 3 (a) and 4 (b). This was mainly due to candidates' failure to sufficiently grasp core syllabus areas; a lack of technical knowledge; and also a failure to read question requirements carefully.

A number of common issues arose in candidates' answers:

- Failing to read the question requirement clearly and therefore providing irrelevant answers which scored few, if any, marks.
- 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.
- Not learning lessons from earlier examiner's reports and hence making the same mistakes again, especially in relation to Special Defence Contribution and Capital Gains Tax.
- Providing more than the required number of points.
- Illegible handwriting and poor layout of answers.

I would like to take this opportunity to remind candidates that those who are planning to continue their taxation studies at the P6 level should be aware that a full and detailed understanding of the F6 syllabus is assumed at P6.

## Specific Comments

### Question One

This was a 30 mark question testing candidates' ability to cope with various aspects of income tax and special defence contributions for three individuals, including the computation of taxable income and the tax liabilities.

Part (a) for 7 marks required candidates to calculate the special defence contribution payable by Mr Andreas Koutsodaxylos for the year 2013. It was answered well by most candidates who displayed good understanding of how to calculate special defence contribution payable by an individual.

Part (b) for 13 marks required candidates to calculate the income tax liability of Mr Andreas Koutsodaxylos for the year 2013. It was answered well by most candidates who displayed a good understanding of how to calculate income tax payable for an individual employee. The main problems encountered were that candidates struggled to differentiate between allowable deductions and personal allowances.

Part (c) for 3 marks required candidates to calculate the taxable income of Mrs Koulla Koutsodaxylos for the year 2013. It was answered well by most candidates but a significant minority of candidates did not read the question carefully, and calculated the income tax liability instead of calculating taxable income

Part (d) for 7 marks required candidates to explain the tax treatment of the director's current account debit balance and the role of form IR59 before calculating the taxable income of Mr Theodoros Megalos. Most candidates performed inadequately on this part of the question, with a number of candidates not even attempting it.

For those candidates who did attempt the requirement, the main problems encountered were that candidates struggled to identify the tax issues that arose due to the maintenance of a debit balance on a director's current account. The requirement verb in part (d) (i) was to "explain" and often insufficient detail was given to score the available 4 marks.

### **Question Two**

This was a 25 mark question and tested candidates' ability to calculate the corporate income tax payable and the special defence contribution for deemed dividend distribution.

Part (a) (i) for 6 marks required candidates to explain the rules governing the relief for corporate losses. A significant minority of candidates did not understand the question requirement fully, and, instead of providing the rules governing the relief for corporate losses, they provided answers dealing with group loss relief. This was despite the requirement clearly stating that candidates were not expected to consider group relief.

Part (a) (ii) for 2 marks required candidates to explain the income tax treatment of the foreign branch profits. Some candidates confused this requirement with that of (a) (i) and so duplicated their answers from (a)(i). The main problem was that answers were not specific enough and frequently vague answers such as "branch losses will be claimed as group loss relief" were given. Such answers did not address the requirement as they do not explain how the branch profits will be treated. Candidates are reminded that they must answer the question asked as opposed to the one they wish had been asked.

Part (a) (iii) for 8 marks required candidates to calculate the company's taxable income for three years. This question was answered well by most candidates. Many candidates presented their answers in a columnar format and again this seemed to help them to produce clear and concise answers.

Part (b), for 9 marks, required the calculation of the special defence contribution (SDC) for deemed dividend distribution purposes. Many candidates performed adequately on this part of the question, as they calculated correctly the profit subject to SDC deemed distribution. A relatively common mistake was the deduction of actual dividends paid from the accounting profit, rather than deducting them from the deemed dividends.

### **Question Three**

This 20 mark question tested candidates' knowledge of capital gain tax. The majority of candidates performed well in part 3 (b) and found the other parts more challenging. Generally candidates displayed a good understanding of how to calculate capital gains tax and indexation of costs.

Part (a) (i) for 3 marks required candidates to explain the treatment of the disposal of shares in Era Ltd by Zeus Ltd and then part (a) (ii) for 5 marks required the calculation of the company's capital gains tax payable. Most candidates performed inadequately on this part of the question. However, a number of candidates deducted the general lifetime exemption from the capital gain when the allowance is only available to individuals.

Part (b) (i) for 2 marks required candidates to explain whether or not Aphrodite will be entitled to the resident dwelling exemption and then part (b) (ii) for 5 marks required the calculation of the capital gains tax payable.

Where candidates did not perform well this was because they failed to read the question properly. Candidates must read the question carefully. In addition, some candidates did not use the resident dwelling exemption in their part (b) (ii) calculations despite having stated in part (b) (i) that the exemption was available to Aphrodite. Again, this was due to a failure to read the question requirement.

Part (c) for 5 marks required a calculation of the chargeable gain of an individual. The majority of candidates performed well in this part of the question. However, a small number of candidates computed the capital gains tax payable on the sale of the building only, when this computation (unlike the balancing statement) did need to include the value of land too.

#### **Question Four**

This 15 mark question was based on OPA Designs and tested candidates' knowledge of the tax treatment of partnerships.

Part (a) for 3 marks required candidates to explain how the allocation of partnership profits or losses should be made between the three partners. Candidates performed satisfactorily on this part of the question. However, many candidates failed to identify the basis of profits allocation where there is no partnership agreement. In addition, some candidates provided calculations despite the requirement having a narrative verb ("state").

Part (b) for 10 marks tested candidates' ability to calculate the amount of each partner's share of the taxable trading profit realised in the year ended 31 December 2013. Candidates' performance in this part of the question was not satisfactory. The most common mistakes made by candidates were:

- Treating partners' salaries as deductible expenses rather than treating them as an appropriation of profits.
- Treating partners' interest on capital as deductible expenses rather than treating them as an appropriation of profits.
- Ignoring the existence of the partnership agreement, and its effect on the allocation of the taxable profit between the partners

Part (c) for 2 marks required the due dates for submission of a taxpayer's tax return. Candidates performed well on this question. It was pleasing to see that many candidates correctly used the three months extension which is given to taxpayers who are submitting their tax returns electronically.

#### **Question Five**

This 10 mark question was based on Beautiful Ltd and tested candidates' knowledge of value added tax (VAT).

Part (a) for 7 marks tested candidates' knowledge of the calculation of VAT payable and this question was answered well by most candidates. Where candidates did not score as well, this was mainly due to a failure to distinguish between VAT output and VAT input.

Part (b) for 1 mark required a 'brief explanation' of the VAT treatment of the discount for prompt payment. Candidates performed well on this part of the question. However, it was not uncommon to see lengthy answers. Whilst it is understandable that candidates wish to ensure that they gain the one mark available, this approach can lead to time pressure and subsequent questions can suffer. Candidates are reminded to look carefully at both the verb at the beginning of the question requirement and the available marks, as this should help them to understand the level of detail required for their answers.

Part (c) for 2 marks required candidates to explain why Beautiful Ltd may have chosen to voluntarily register for VAT. Candidates performed well in part (c) as they generally recognised when it was beneficial for a trader to



register voluntarily and explained correctly that voluntary registration would benefit Beautiful Ltd who would be able to reclaim VAT on equipment purchased and expenses paid.