

# Examiner's report

F6 Taxation (IRL)

December 2013

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## General Comments

The examination consisted of five compulsory questions. Question one was for 25 marks and examined principles of income tax, question two was a corporation tax question for 30 marks and question three was on personal capital gains tax and had 20 marks assigned. Question four examined distinguishing between contracts of employment versus self-employment for income tax purposes and included a number of marks allocated to the area of tax compliance. There were 15 marks available for question four. Finally, question five was for ten marks and examined value added tax (VAT).

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.

The most common questions left unanswered by candidates were question four or question 2(b).

Candidates performed particularly well on questions 1(b), 1(c), 2(a), 3(a), 3(b), 4(a) and 5(a). The questions candidates found most challenging were questions 1(a), 2(b), 3(c), 4(b) and 5(b). This appeared mainly due to candidates not fully understanding loss relief in companies and not being familiar with the full syllabus.

Candidates' answers, in most cases, were well presented. However, in others, poor handwriting and scattered answers made it difficult for a candidate to maximise on their performance.

## Specific Comments

### Question One

This 30 mark question was based on determining the income tax liability of an Irish resident and domiciled couple who had got married during the tax year. They had a number of different sources of income and candidates were required to calculate year of marriage relief.

Part (a) (i) for three marks required candidates to adjust accounting profit to arrive at assessable income and then to time-apportion the assessable Case II income to actual income, as the business was in a commencement situation. In the main this was poorly answered as, whilst most candidates recognised the need to adjust to actual income, they failed to correctly adjust the accounting profit.

For requirement (a) (ii) the majority of candidates recognised that there were no capital allowances available on the Jeep but failed to adjust the capital allowance on the equipment in accordance with the length of the accounting period.

Overall, requirement (b) was well answered. However, in relation to the benefit in kind (BIK), many forgot to adjust the preferential loan interest assessed to take account of the loan only being in existence for six months. Many also omitted the benefit assessed due to the employer paying for the private medical insurance. Even in the scripts where this was included as a BIK the associated non-refundable tax credit tended to be omitted.

The pension contribution was, in general, calculated correctly. The biggest mistake made on the application of the tax rates was to apply a 20% rate to Schedule F income, instead of the marginal rate. Audrey's PAYE tax credit which was restricted to income tax at standard rate on her Schedule E income was often incorrectly included at the full tax credit.

Additionally, a small number of candidates deducted tax credits from assessable income before calculating the gross tax liability.

Overall, the most poorly answered part of the question was the calculation of the year of marriage tax relief due. Candidates should remember that the relief is given on the difference between the combined tax liability of the couple as single individuals and the tax due had the couple been assessed on a joint basis for the year. If there is a saving available by using joint assessment this is adjusted to reflect the number of months or part thereof that a couple are married. The tax figures compared should be the gross tax liability less non-refundable tax credits.

Requirement (c) was generally well answered with candidates recognising that USC applied to all of Audrey's income.

### Question Two

Part (a) (i) of the question on Case I adjusted income was generally well answered. The adjustments that tended to cause difficulties for candidates were rates, interest paid and the pension accrual. The reduction of the accrual over the year meant that a payment in excess of the pension expense was made and Ambucall Ltd was entitled to a deduction of €20,000. There were a lot of marks available in this question for the capital allowance computation. Generally, this was well answered and where candidates lost marks it was usually because they failed to or incorrectly adjusted the sales proceeds on the motor vehicle.

Part (a) (ii) of the question was, in the main, well answered. The most common mistake candidates made was to forget to only take six months rental income into account. It is important to remember that the portion of the lease premium that is taxable is taxed in full in the year the premium is received.

Many candidates lost marks in part (b) of the requirement as they failed to show the order of the reliefs claimed. The relief claimed under S396A was, in many instances, incorrectly restricted to 6/12ths of €400,000 - the loss can be carried back to a period equal in length to that in which it is incurred. Many did not realise that the excess capital allowances arising on Case V income in the year to 31 December 2012 should be offset against income that is taxed at the higher rate in the first instance, in order to get maximum benefit from the loss.

### Question Three

The first transaction in part (a) of the question involved a share disposal. This was generally done well and candidates were able to identify the cost and number of shares disposed of. However some candidates, whilst calculating the order of the purchase, bonus and rights issues, then forgot to apply the weighted average cost to determine the cost of shares sold.

Transaction 2 involving the disposal of a house and the principal private residence relief available was well answered.

Some candidates struggled with the disposal of the Jeep in transaction 4. It is important for candidates to remember that where a gain arises on the disposal of a wasting asset used for business purposes the gain will be taxed, in proportion to its business use. However, where a loss arises on such an asset there is no capital gains tax relief for the loss.

Part (b) of the requirement was, again, well answered and most candidates recognised that only one annual exemption was available as all the assets liable were disposed of by Shane.

Some candidates failed to be specific enough in requirement (c). For example, it is not correct to say that wasting assets are exempt from CGT - rather, they are only exempt if not used for business purposes. The same applies for principal private residences.

**Question Four**

Requirement (a) (i) was well answered.

Where candidates lost marks in requirement (a) (ii), it was mainly due to their layout. Such candidates failed to distinguish between the two types of contracts and instead just listed points about the characteristics of each. In some instances candidates repeated the same point in a different way. For example, a candidate might say that if you had a contract of service you would have pension rights and as a separate point that you would have holiday pay. These are essentially making the same point in that the individual would have a contract of employment with terms and conditions attached. However, generally, the answers were satisfactory.

Requirement (b) was poorly answered.

**Question Five**

Requirement (a) was well answered. The two most common mistakes were to omit the purchase of the parts from the UK in the output VAT calculation and to incorrectly include VAT on the shelves as input VAT for this period.

In general, the answers to requirement (b) were unsatisfactory with many candidates appearing ill-prepared for this question.