

# Examiner's report

F6 Taxation (IRL)

December 2014

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## General Comments

The examination consisted of five compulsory questions. Question 1 examined income tax for 30 marks and question 2 examined the computation of a corporation tax liability and losses for 25 marks. Question 3 examined capital gains tax, for 20 marks and question 4, carrying 15 marks, examined value added tax (VAT). Question 5 was a ten mark question, which examined ethics of a tax practitioner; residence of companies; and an explanation of permanent establishments.

The vast majority of candidates attempted all five questions. However in many cases parts of questions were left unanswered or poorly attempted. Where questions were left unanswered by candidates, this appeared to be due to a lack of knowledge as opposed to time pressure. However, although most candidates laid out their solutions well in terms of logical workings, work was often very messy.

Candidates performed particularly well on questions 1(a), 1(b) (i), and 1 (c), 2(a), 4(b) and 5(b). The questions candidates found most challenging were questions 2(b), 3, 4(a) and 5(a). This was mainly due to candidates' lack of detailed knowledge. These difficulties were not widespread but evident. In general, the questions testing the very core areas of the syllabus were well answered and those on other areas of the syllabus were less so.

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

- Failing to read the question requirement clearly and therefore providing irrelevant answers
- Messy workings that sprawled over many pages instead of concise answers focussed on the question requirement

## Specific Comments

### Question One

This was a 30 mark question with 27 marks based on computation and 3 marks allocated to narrative answers.

Part (a) was very well answered, and candidates appeared to be comfortable with calculating the taxable amount of a termination payment. Part b (i) dealing with the cessation of trade of one partner also appeared to be a topic that candidates were well able to deal with, although some candidates wasted time by computing the taxable Case II income of all three partners.

Part (b) (ii) was generally well answered and most candidates knew to restrict the cost of the car for capital allowance purposes and to restrict the sales proceeds on disposal.

In Part 1 (c) many candidates were not aware that a taxpayer can either get relief for payment to a carer or a non-refundable incapacitated child tax credit but not both. The relief available for qualifying investment in an EII scheme was calculated incorrectly by some candidates. It is very important for candidates who are sitting this paper and may have previously studied tax under a previous Finance Act to ensure that they are aware of changes in tax rates or other amendments.

The standard of answers to part (d) was varied. Some candidates incorrectly stated that Marie and Sean would be resident in 2014; others spent some time discussing the rules of residence which was not answering the question requirement.

### Question Two

This 25-mark question was substantially computational, with 23 marks being awarded for computations, and only two marks for theory/narrative.

Part (a) was generally adequately answered. Incorrect treatment of the pre-trading expenses, the interest on the Irish government bonds, the grant received, and relief under the Revenue Job Assist scheme were the most common errors in the question. Many candidates did not know that the government grant in respect of Key Managers is not taxable and many thought that interest on Government bonds was exempt, more than likely getting mixed up between the tax treatment of income and gains. The double deduction of wages expense where these were incurred under the Revenue Job Assist scheme was often omitted from candidates' scripts.

On a positive note, the adjustment for the car lease payments was generally performed accurately. In addition, the calculation of the industrial building allowance (IBA) was well answered by the majority of candidates.

Part (b) (i) was well answered except for the fact that many candidates failed to state the amount of any unused losses. This was clearly stated in the question requirement and candidates must ensure that they read the requirements carefully in order to maximise their marks.

Part (b) (ii), in contrast, was generally not well answered as many candidates failed to read the question properly. Candidates were required to state how the losses would be used - computations were not required.

### Question Three

This 20-mark question was based on capital gains tax.

In part (a), candidates appeared to struggle most with transaction 1, and the calculation of the cost of the land that was now being sold.

In transaction 5, the incorrect cost of the shares was often used - this should have been the original cost at 1972. Candidates were well aware of the order of loss relief and the use of the annual exemption, and almost all candidates correctly only gave an annual exemption to Gerry.

Answers to part (b) were very mixed with candidates' performance ranging from the very satisfactory to the unsatisfactory. Only a few candidates mentioned that any loss incurred on a share disposal that came within the remit of this anti-avoidance rule could only be relieved against a subsequent disposal of the same shares.

### Question Four

In this 15-mark question, part (a) was theory for 5 marks, and part (b) for 10 marks was application, requiring a calculation of the net VAT liability. Part (a) was generally poorly answered. Although some candidates did appear to have some knowledge here, they frequently struggled to explain themselves.

Part (b) was generally well answered. However, some common errors included that candidates did not know that exports are zero rated or that the gift of the jumpers was liable to VAT based on their cost (as this cost excluding VAT exceeded €20). Many candidates forgot to restrict the VAT deductible on the diesel to 80%. The intra-community acquisition of wool was well dealt with as was the VAT on the hotel bill.

### Question Five

This 10-mark question was theoretical.

Part (a) required candidates to identify three fundamental principles in the Code of Ethics. Some candidates appeared to confuse the fundamental ethical principles with basic accounting concepts.



Part (b) was well answered by those candidates who were well-prepared and less satisfactory by others. Most candidates were able to identify the factors that determine where central control and management arise in part (i). In part (ii), many candidates were able to give an example of a permanent establishment, but were unable to explain the term.