

# Examiner's report

F6 Taxation (UK)  
December 2013



## General Comments

The examination consisted of five compulsory questions. Question 1 for 30 marks, question 2 for 25 marks, and three further questions of 15 marks each.

The vast majority of candidates attempted all five questions, and there was little evidence of time pressure. In many cases performance was less than satisfactory, although there were many well prepared candidates who performed strongly. One particular problem at this sitting was that candidates often spent far too long on what should have been fairly straightforward computations. For example, there was no need to explain the adjustments made when computing the trading profit in question 1(a), and for question 5(a) many candidates produced detailed layouts when it was much easier to just consider each transfer separately.

Candidates performed particularly well on questions 1(a), 1(b), 2(a), 3(a)(i), 3(b)(i), 4(a)(i), 5(a), 5(b) and 5(c). The questions candidates found most challenging were questions 1(c)(i), 1(c)(ii), 1(d)(ii), 2(b), 2(c), 3(b)(ii), 3(c)(ii), 4(a)(ii) and 4(b).

## Specific Comments

### Question One

This 30 mark question involved Richard Feast who had commenced in self-employment, running a restaurant on 6 April 2012.

Part (a) for 7 marks required candidates to calculate Richard's tax adjusted trading profit for the year ended 5 April 2013. This involved private use adjustments for motor expenses and property expenses, as well as a capital allowances computation. This section was generally very well answered.

Part (b) for 6 marks required a calculation of the employers' class 1 and class 1A NIC that Richard would have incurred in respect of his employees' earnings and benefits for the tax year 2012-13. Richard employed a chef (who was provided with a company car), a part-time waitress (who was paid below the earnings threshold), and an assistant chef (who was employed for eight months during the tax year). This section was also generally well answered, although many candidates wasted time by calculating employees' class 1 NIC. For some reason, a fairly common error was to restrict the car benefit by a factor of 20%.

Part (c) was for a total of 5 marks, and was concerned with Richard filing his initial self-assessment tax return. The first requirement for 2 marks was to advise Richard of the latest dates by which his self-assessment tax return for 2012-13 should be filed in order to avoid a penalty. The second requirement for 3 marks was to state the period during which HM Revenue and Customs would have to notify Richard if they intended to carry out a compliance check in respect of his tax return for 2012-13, and the possible reasons why such a check would be made. In the first requirement, the filing dates were often either not known or were confused with payment dates. For the second requirement, very few candidates knew that HM Revenue and Customs' notification period runs for 12 months after the receipt of the tax return. Candidates were also generally unaware of the reasons that would give rise to a compliance check.

Part (d) for a total of 12 marks dealt with various VAT issues. The first requirement for 4 marks was to explain from what date Richard was required to be compulsorily registered for VAT and the VAT implications of continuing to trade after this date without registering. The second requirement for 2 marks was to briefly explain, from an ethical viewpoint, the issues a trainee Chartered Certified Accountant should consider in order for their firm to deal with Richard's refusal to register for VAT. The third requirement for 4 marks was to state the circumstances in which a retailer can issue a simplified VAT invoice, when such an invoice should be issued, and

five pieces of information that such an invoice must show where the supply is entirely standard rated. The fourth requirement for 2 marks was to explain how and when VAT registered businesses have to submit their quarterly VAT returns and pay any related VAT liability. This section was generally not well answered. As regards the first requirement, many candidates gave the notification date rather than the date of VAT registration, and very few candidates appreciated that the main implication of not registering would be a liability for output VAT from the date that registration was required. For the second requirement, many candidates stated that they would simply report Richard to HM Revenue and Customs. As regards the third requirement, very few candidates had any knowledge of simplified VAT invoices, although they managed to score some marks by listing everything that could possibly be included on a VAT invoice. The fourth requirement was dealt with a bit better, although many candidates were not aware that online filing is now compulsory.

### Question Two

This 25-mark question was based on Softapp Ltd. Softapp Ltd owned 100% of the ordinary share capital of Byte-Size Ltd, and during the year ended 31 March 2013 Byte-Size Ltd had made a capital loss.

Part (a) for 20 marks required a calculation of Softapp Ltd's tax corporation tax liability for the year ended 31 March 2013. This involved the treatment of the profit of an overseas branch, the calculation of the deduction for a lease premium, a detailed capital allowances computation, the calculation of the company's property business profit, a chargeable gain, the ability to calculate a corporation tax liability where marginal relief is applicable, and double taxation relief. This section was reasonably well answered although some common mistakes were evident. When calculating the trading profit, many candidates adjusted for more items than was necessary, and there was often confusion about whether items should be included as income or deducted. The capital allowances computation was fairly challenging, and there was a lot of confusion as to which pool expenditure should be allocated. Many candidates incorrectly claimed capital allowances on the building costs of an office extension that the company had constructed. Double taxation relief was often deducted in calculating taxable total profits, and very few candidates appreciated that a security deposit was not income as regards the company's property business profit.

Part (b) for 3 marks required candidates to advise Softapp Ltd as to the joint election it should make with Byte-Size Ltd, regarding their respective chargeable gain and capital loss, and to explain how such an election would reduce the group's overall corporation tax liability for the year ended 31 March 2013. This section was generally not well answered, with many candidates stating that the capital loss could be set off as if it were group relief. There was little appreciation that it was beneficial for the balance of the chargeable gain to arise in Byte-Size Ltd given that this company only paid corporation tax at the small profits rate.

Part (c) for 2 marks required candidates to state what factors Softapp Ltd should take into account when deciding whether to make an election to exempt the profits of its overseas branch. This section was also generally not well answered, and in particular there was little appreciation that there would be little benefit in making an election given that the UK corporation tax liability was mainly offset by double taxation relief.

### Question Three

This 15-mark capital gains tax question involved three separate scenarios.

Part (a) was for a total of 5 marks. On 10 June 2012, Delroy had made a gift of 25,000 £1 ordinary shares in Dub Ltd, an unquoted trading company, to his son, Grant. Delroy and Grant had elected to hold over the gain as a gift of a business asset. Grant then sold the shares in Dub Ltd on 18 September 2012. The first requirement for 3 marks was to calculate Grant's CGT liability for 2012-13. The second requirement for 2 marks was to explain why it would have been beneficial for CGT purposes if Delroy had instead sold the 25,000 shares in Dub Ltd himself on 10 June 2012, and then gifted the cash proceeds to Grant. The difference being that a disposal by Delroy would have qualified for entrepreneurs' relief, whereas the disposal by Grant did not. The first requirement was generally very well answered, although many candidates wasted time in establishing the cost



figure given the election for holdover relief. The second requirement was also well answered, although only a minority of candidates appreciated that a cash gift would not have any CGT implications.

Part (b) was for a total of 5 marks, and involved Marlon and his wife, Alvita. On 12 February 2013, Marlon had sold his principal private residence, with one-third of the house always being used exclusively for business purposes. Marlon was a higher rate taxpayer, but Alvita did not have any taxable income. The first requirement for 3 marks was to calculate Marlon's chargeable gain for 2012-13. The second requirement for 2 marks was to calculate the amount of CGT that could have been saved if Marlon had transferred 50% ownership of the house to Alvita prior to its disposal. The first requirement was well answered, although the principal private residence exemption often caused some difficulties. The second requirement was not as well answered, and candidates generally did not appreciate that there was a relatively quick way to calculate the tax saving. Instead, candidates wasted time producing full tax computations.

Part (c) was for a total of 5 marks. On 2 April 2013, Leroy sold 12,000 £1 ordinary shares in Jerk-Chic plc, having previously made a gift of 4,000 shares to his daughter on 23 October 2012. The first requirement for 4 marks was to calculate the chargeable gains arising from Leroy's disposals of Jerk-Chic plc shares during 2012-13. This involved valuing the shares at the time of the gift. The second requirement for 1 mark was to state why it would have been beneficial if Leroy had delayed the sale of the 12,000 shares in Jerk-Chic plc until 6 April 2013. Although there were some satisfactory answers to the first requirement, many candidates ignored the chargeable gain arising from the gift of shares. For the second requirement very few candidates appreciated that delaying the sale by four days would postpone the tax liability by 12 months. Many candidates explained that an additional annual exempt amount would then be available despite the question making it clear that this was not possible.

#### **Question Four**

This 15-mark question involved three separate scenarios.

Part (a) was for a total of 5 marks and concerned Fang, who had commenced self-employment on 1 August 2010. The first requirement for 3 marks was to calculate the amount of trading profit that would have been assessed on Fang for each of the tax years 2010-11, 2011-12 and 2012-13, and to state the amount of any overlap profit. The second requirement for 2 marks was to explain how Fang would have obtained relief for trading expenditure incurred prior to 1 August 2010 and for computer equipment that Fang already owned which was brought into business use on 1 August 2010. The first requirement was generally well answered. The second requirement was not as well answered, with four separate points being necessary to achieve the full 2 marks. In particular, very few candidates appreciated that the computer equipment would be brought in to the capital allowances computation at its market value at 1 August 2010.

Part (b) for 5 marks involved Hong who had made a trading loss for the year ended 5 April 2013, and had claimed this against her total income and chargeable gain for 2011-12. After taking account of the loss relief claims made, the requirement was to calculate Hong's taxable income and taxable gain for 2011-12, and to state the amount of any trading loss carried forward. This section was not so well answered, and many candidates included the chargeable gain within their income tax computation. Very few candidates appreciated how the loss relief claim against the chargeable gain was calculated.

Part (c) for 5 marks involved Kang, Ling and Ming who were in partnership, preparing accounts to 30 June, with Ming leaving the partnership on 31 October 2011. The requirement was to calculate the trading income assessments of Kang, Ling and Ming for the tax years 2011-12 and 2012-13. Although full marks were awarded if candidates combined the allocation of profits and the trading income assessments, taking such an approach meant that candidates were far more likely to make a mistake. The most common problem area was candidates failing to appreciate that Ming, having left the partnership on 31 October 2011, could not possibly have an assessment for 2012-13.

**Question Five**

This 15-mark inheritance tax question involved Afiya who had died during 2012-13 having made various lifetime gifts of assets.

Part (a) for 12 marks required a calculation of the inheritance tax that would have been payable as a result of Afiya's death. She had made an exempt gift to her husband, three small gifts, a gift of ordinary shares in an unquoted investment company, and a cash gift to a trust where Afiya paid the inheritance tax arising from the gift. This section was generally very well answered. However, some candidates missed some easy marks by omitting the death estate.

Part (b) for 2 marks required candidates to state the due dates of payment for the inheritance tax arising from the gift made to the trust. Candidates had little difficulty with the due date for the additional inheritance tax liability as a result of Afiya's death, but the due date for the lifetime liability caused problems.

Part (c) for 1 mark required candidates to calculate the amount of inheritance that would have been received by Afiya's children who had inherited the residue of her estate. A very common mistake here was to not deduct the inheritance tax liability on the death estate