

Examiner's report

F6 Taxation (UK)

June 2013



General Comments

The examination consisted of five compulsory questions. Question 1 for 25 marks, question 2 for 30 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. Overall, this was a particularly impressive performance.

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

Specific Comments

Question One

This 25-mark question involved John and Rhonda Beach, a married couple. John was aged 59, and was employed by Surf plc. Rhonda was aged 66, and was in receipt of pension income.

Part (a) for 14 marks required candidates to calculate John Beach's income tax liability for the tax year 2012-13. It was necessary to calculate the taxable benefit from receiving a mileage allowance, a car benefit, fuel benefit and a beneficial loan, and to appreciate that no personal allowance was available. The basic and higher rate tax bands had to be extended by the amount of personal pension contributions, with this figure having to be calculated (taking into account unused amounts brought forward from previous years). This section was generally very well answered, and the only aspect that caused problems was the calculation of the personal pension contributions. A common mistake was to gross up the contributions.

Part (b) for 4 marks required a calculation of the class 1 and class 1A national insurance contributions that would have been suffered by John Beach and Surf plc in respect of John's earnings and benefits for 2012-13. This section was well answered by the majority of candidates.

Part (c) for 4 marks required a calculation of Rhonda Beach's income tax liability for 2012-13. The personal allowance for people aged 65 to 74 was restricted as a result of Rhonda's income exceeding the income limit, and it was necessary to appreciate that the starting rate of 10% was available in full. This section was generally very well answered, although several candidates incorrectly grossed up the building society interest. Some candidates did not appreciate that the starting rate was available.

Part (d) for 3 marks required candidates to state the tax advantages of a rental property qualifying as a trade under the furnished holiday letting rules. This section of the question was not answered quite so well as the other three sections, with some candidates explaining the furnished holiday letting qualifying conditions rather than the advantages of being so qualified.

Question Two

This 30-mark question was based on Greenzone Ltd.

Part (a) for 10 marks required a calculation of Greenzone Ltd's tax adjusted trading profit for the year ended 31 March 2013. This involved the adjustment of trading profits and a detailed capital allowances computation. This section was well answered by the majority of candidates, with no aspect causing particular problems.

Part (b) was for a total of 9 marks. Information was given for four companies that Greenzone Ltd held shares in throughout the year ended 31 March 2013. The first requirement for 2 marks was to state, giving reasons, which

of the four trading companies would be treated as being associated with Greenzone Ltd. The second requirement for 2 marks was to calculate the maximum amount of group relief that Greenzone Ltd could have claimed for the year ended 31 March 2013. The third requirement for 5 marks was to calculate Greenzone Ltd's corporation tax liability for the year ended 31 March 2013. This was on the assumption that the maximum amount of group relief was claimed, and involved a computation of franked investment income – ignoring group income. The first requirement was generally well answered, although some candidates incorrectly applied a 75% threshold. The second requirement caused more problems, with many candidates including the loss from a group company where the shareholding was only 60%. Some candidates produced confused workings involving all four group companies, and therefore wasted quite a bit of time. The third requirement was generally well answered, although the franked investment income was often omitted or incorrectly calculated.

Part (c) for a total of 11 marks dealt with various valued added tax (VAT) issues. The first requirement for 7 marks was to calculate the amount of VAT payable by Greenzone Ltd for the quarter ended 31 March 2013. It was necessary to take account of group sales, a fuel scale charge, an impairment loss and irrecoverable input VAT in respect of business entertainment. The second requirement for 2 marks required candidates to advise Greenzone Ltd of the default surcharge implications if it was two months late in submitting its VAT return for the quarter ended 31 March 2013 and in paying the related VAT liability. This would have been the first default during an ongoing surcharge period, therefore resulting in a surcharge at the rate of 2%. The third requirement for 2 marks required candidates to state the advantages if Greenzone Ltd and two other eligible companies were to register as a group for VAT purposes. The first requirement was generally well answered. Common mistakes included not appreciating that VAT figures were given (rather than supply figures), that no adjustment was required on a deposit (given that the tax point was the date of payment) and that no relief was available for the impairment loss (as less than six months had passed from the time that payment was due). The second requirement was the one section on this paper that was inadequately answered by the vast majority of candidates, with few being able to explain the correct surcharge position. The third requirement was generally well answered, although many candidates often wrote at length to explain a couple of fairly straightforward points.

Question Three

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

Part (a) for 4 marks involved Ginger, who wanted to sell some of her holding of 10,000 £1 ordinary shares in Nutmeg Ltd to her daughter at an undervaluation. Ginger and her daughter were going to elect to hold over any gain as a gift of a business asset. The requirement was to explain how many shares Ginger could sell to her daughter without incurring any capital gains tax liability for 2012-13. It was necessary to work out the chargeable amount per share (since only the gift element of a gain can be held over), and to then utilise Ginger's annual exempt amount for 2012-13. Although there were a number of correct answers to this section, it caused difficulty for many candidates. The main problem was not appreciating that the annual exempt amount should be used, despite a fairly heavy hint to this effect being given in the question.

Part (b) for 5 marks involved Aom, who was in business as a sole trader. Having purchased a freehold factory, Aom wanted to sell one of the two freehold warehouses that she already owned. A claim was going to be made to rollover the gain on whichever warehouse was sold against the cost of the factory. The requirement was to calculate the chargeable gain that would arise in 2012-13 if either the first or the second warehouse was sold. With the first warehouse, no rollover relief was available as the amount not reinvested exceeded the chargeable gain. With the second warehouse, the sale proceeds were not fully reinvested. This section was reasonably well answered by the majority of candidates, although the rollover relief aspects for the first warehouse often caused difficulty.

Part (c) for 6 marks involved Innocent and Nigel, a married couple, who both had shareholdings in Cinnamon Ltd, an unquoted trading company. Either Innocent or Nigel were going to sell 2,000 of their shares, but were

not sure which of them should make the disposal. The requirement was to calculate the capital gains tax saving if the disposal of 2,000 shares in Cinnamon Ltd was made by Innocent rather than Nigel. It was necessary to appreciate that a disposal by Innocent would qualify for entrepreneurs' relief, whereas a disposal by Nigel would not. This was another well answered section, with many candidates achieving maximum marks.

Question Four

This 15-mark question covered the differing treatment of long periods of account for income tax and corporation tax purposes - including the alternative methods of computing capital allowances.

Part (a) for 3 marks required candidates to list the qualifying conditions which must be met for a change of accounting date by an unincorporated business to be recognised for tax purposes by HMRC. This section was generally reasonably well answered, although the answers of some candidates were not precise enough to achieve maximum marks – for example, stating that “the change of accounting date must be notified to HMRC by 31 January”, rather than “the change of accounting date must be notified to HMRC by the 31 January following the tax year in which the change is made”.

Part (b) for 7 marks involved Meung Nong, who had commenced in self-employment on 1 May 2010. She had initially prepared accounts to 30 April, but changed her accounting date to 30 June by preparing accounts for the 14-month period to 30 June 2013. Candidates were required to calculate the amount of trading profit that would be assessed for 2010-11, 2011-12, 2012-13 and 2013-14. It was necessary to extend the writing-down allowance claim for the period to 30 June 2013 by a factor of 14/12ths, and to relieve two months of overlap profits as the basis period for 2013-14 was 14 months long. Although a number of candidates achieved maximum marks for this section, it was not as generally well answered as the paper overall. Relief for overlap profits was often overlooked, and, much worse, there was often confusion over which tax years were applicable – a few candidates tried to solve this problem by introducing a somewhat dubious fifth tax year into their workings. The question clearly stated which four tax years were relevant.

Part (c) for 5 marks involved Opal Ltd. The company had prepared accounts for the 14-month period ended 31 May 2013. Candidates were required to calculate Opal Ltd's taxable total profits for each of the accounting periods covered by the 14-month period of account ended 31 May 2013. It was necessary to prepare separate capital allowance computations for the year ended 31 March 2013 and the period ended 31 May 2013. Candidates generally achieved reasonable marks for this section, but this was often only because the capital allowance marks were awarded as long as the workings followed whatever basis was adopted for the 14-month accounting period. It was unsatisfactory that the 12 month/2 month split was not more widely appreciated given that this aspect has now been examined several times in past F6(UK) papers.

Question Five

This 15-mark question involved Pere Jones, who had made a gift of a house to his son, Phil Jones. Pere died during 2012-13, dividing his estate equally between his wife and Phil. The house received by Phil was let out unfurnished until it was sold on 5 April 2013. Figures were given for the income and outgoings relating to the property for 2012-13.

Part (a) was for a total of 8 marks. The first requirement for 6 marks required a calculation of the inheritance tax that would be payable as a result of Pere Jones' death. The second requirement for 2 marks required candidates to state who was responsible for paying the inheritance tax arising from Pere Jones' gift of the house to Phil, and when this would be due. The first requirement was generally very well answered, with many candidates achieving maximum marks. The only aspect that consistently caused problems was taper relief, with either the incorrect rate being used or relief being given at the wrong point in the computation. The second requirement was often not so well answered, with a number of candidates not being able to provide the correct due date.

Part (b) for 7 marks required a calculation of Phil Jones' income tax and capital gains tax liabilities for 2012-13. As regards the given figures, it was necessary to distinguish between capital and revenue income/expenditure. There were again many sound answers to this section. Obviously, those candidates that included every item of income and expenditure in both the income tax and the capital gains tax computations could not expect to achieve many marks.