



Examiner's report

F6 Taxation (UK)

June 2014

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 overall this was a good performance. Well prepared candidates had little difficulty in achieving a pass mark.

Some candidates spent far too long on what should have been fairly straightforward computations – especially for the main computations in questions 1 and 2. Time was wasted producing detailed workings for items that could easily have been included in the main computations and these candidates then struggled time wise towards the end of the examination.

None of the five questions caused any particular problems. Candidates performed particularly well on questions 1a, 2a, 2c, 3a, 3b, 4a(i), 4a(ii) and 5a. The questions candidates found most challenging were questions 1b, 1c, 2b, 4a(iii), 4b, 4c, 5b and 5c.

Specific comments

Question One

This 25-mark question involved Richard who was both employed and self-employed throughout 2013-14. Richard had tried to prepare his own income tax computation for 2013-14, but had found it more difficult than expected. This partly completed income tax computation (with a significant number of omissions) was provided to candidates.

Part (a) for 19 marks required candidates to calculate the income tax payable by Richard for 2013-14. This involved the application of the opening year basis period rules, a capital allowances computation, the calculation of the taxable benefits arising from the provision of a company car and living accommodation, and the calculation of Richard's property business profit. This section was generally well answered, and candidates obviously benefited from having a proforma layout to follow. However, despite the question stating that all of the given figures were correct, many candidates insisted on grossing up the figure for building society interest. Very few candidates were able to correctly calculate the taxable profit, and candidates generally did not deduct the capital allowances prior to time apportioning profits. One common error was to take the tax year as the basis period, rather than the first 12 months of trading. Many candidates calculated an additional benefit for the living accommodation despite such a charge not being relevant where a property is rented.

Part (b) for 2 marks required candidates to advise Richard of the amount of child benefit income tax charge which he would be subject to for 2013-14, and how this would be collected. This should have been a short, concise answer, yet candidates often wasted time by explaining everything they knew about the charge. Somewhat surprisingly, quite a few candidates confused the child benefit charge with the exemption for childcare.

Part (c) for 4 marks required candidates to advise Richard why the maximum amount of tax relievable personal pension scheme contribution which he could have made for 2013-14 was £50,000, and the method by which tax relief would have been given if he had made this amount of contribution. Richard had not previously been a member of a pension scheme, so no brought forward annual allowances were available. As for part (b), candidates often explained tax relief for pension contributions in general terms, without relating their answer to the particular circumstances of the question. The key points were that no brought forward annual allowances were available, tax relieved contributions were restricted to the annual allowance of £50,000, contributions would have been paid net of basic rate tax (£40,000 being paid), and Richard's basic rate tax band would have been extended by £50,000.

Question Two

This 30-mark question was based on Long Ltd. Long Ltd owned 100% of the ordinary share capital of both Wind Ltd and Road Ltd. Long Ltd and Wind Ltd prepared accounts for the year ended 31 March 2014, whilst Road Ltd prepared accounts for the period 1 January 2014 (when the company commenced trading) to 31 March 2014.

Part (a) for 17 marks required a calculation of the corporation tax liabilities of Long Ltd and Wind Ltd for the year ended 31 March 2014 and of Road Ltd for the three-month period ended 31 March 2014. This was on the assumption that any available reliefs were claimed on the most beneficial basis. For Long Ltd, the calculation involved adjusting for disallowed leasing costs, a detailed capital allowances computation, a claim for group relief, the calculation of franked investment income, and the ability to calculate a corporation tax liability involving associated companies and marginal relief. For Wind Ltd, the computation involved adjusting for amortisation, a lease premium deduction and capital allowances. It was also necessary to take account of Long Ltd's capital loss against Wind Ltd's chargeable gain. For Road Ltd, it was necessary to calculate the company's trading loss after adjusting for donations and capital allowances. The company's taxable total profits consisted of interest income less a deduction for qualifying charitable donations. This section was generally well answered, although candidates needed to plan their answers carefully in order to deal with the group losses without having to redo calculations. The only aspect that consistently caused problems was Road Ltd, where candidates often incorrectly increased the loss for donations, and decreased it for capital allowances. In some cases, the loss was simply treated as a profit.

Part (b) for 3 marks required candidates to explain how and when Road Ltd would have to report real time PAYE information to HM Revenue and Customs, and state what forms, if any, would have to be provided to employees or submitted to HM Revenue and Customs following the end of the tax year. Perhaps not surprisingly, this section was not generally well answered. In many cases, the only form mentioned was form P45 which is no longer relevant. Candidates often explained PAYE in general terms, rather than answering the requirements of the question.

Part (c) for 10 marks required candidates to calculate the amount of VAT payable or recoverable, if any, by Long Ltd, Wind Ltd and Road Ltd for the quarter ended 31 March 2014. All of Long Ltd's sales were standard rated, all of Wind Ltd's sales were exempt from VAT, and all of Road Ltd's sales were zero-rated. This section was generally well answered, although it was not always appreciated that Wind Ltd would not be registered for VAT. One of the points that should have been noted during the 15 minutes reading time was that output and input VAT figures were given, as such candidates should not have multiplied figures by 20% or 20/120ths.

Question Three

This 15-mark capital gains tax question involved Mick who had disposed of various assets during 2013-14. The disposals consisted of the sale of a freehold warehouse (with a replacement warehouse being bought), a part disposal, the sale of unquoted shares (following a bonus issue), and a gift of quoted shares.

Part (a) for 9 marks required candidates to calculate the chargeable gain arising from each of Mick's asset disposals during 2013-14. This was on the assumption that no reliefs were claimed. This section was extremely well answered, with many candidates attaining full marks. The only aspect that consistently caused problems was on the disposal of the freehold warehouse, where expenditure on repairing the floor following a flood should have been treated as revenue expenditure – and therefore not a cost in calculating the chargeable gain.

Part (b) for 6 marks required candidates to state which CGT tax reliefs might be available to Mick in respect of each of his disposals, and what further information would be required in order to establish if the reliefs were actually available and to establish any restrictions as regards the amount of relief. The reliefs involved were rollover relief and entrepreneurs' relief. This section caused a few more problems, with many candidates wasting

time writing about reliefs that were not applicable. It should have been fairly obvious that no reliefs were available for the part disposal of land and the sale of unquoted shares.

Question Four

This 15-mark question involved Chi who had commenced self-employment on 6 April 2013. Candidates were given her trading profit calculated using the normal accruals basis.

Part (a) was for a total of 8 marks. The first requirement for 2 marks was to calculate Chi's income tax liability for 2013-14. The second requirement for 3 marks was to calculate the class 2 and class 4 national insurance contributions payable by Chi for 2013-14. The third requirement for 3 marks was to determine the amount of income tax and national insurance contributions which would have been due for payment under self-assessment by Chi on 31 January 2015. This section was generally well answered, especially the first two requirements. For the first requirement, one common problem was making adjustments to the trading profit, despite being instructed to use this figure. Although this only resulted in a half mark being missed, it often wasted quite a lot of time with unnecessary workings. With the third requirement, very few candidates appreciated that both the balancing payment for 2013-14 and the first payment on account for 2014-15 would be due – it was generally a case of calculations for one or the other.

Part (b) for 2 marks required candidates to advise Chi of the latest date by which a paper self-assessment tax return could be filed for 2013-14, and the deadline should she wish to make an amendment to this return. Most candidates knew the filing date, but very few realised that the amendment deadline was 12 months from the electronic self-assessment tax return filing date – rather than from the paper return deadline.

Part (c) for 5 marks required candidates to calculate Chi's trading profit for the year ended 5 April 2014 if she had used the cash basis instead of the accruals basis. Where relevant, expenses were to be claimed on a flat rate basis. Answers to this part were very mixed. For better prepared candidates, it was mainly the treatment of the capital expenditure that caused problems. Candidates that approached the calculation by attempting to adjust the trading profit (rather than preparing a revised profit computation) struggled.

Question Five

This 15-mark inheritance tax question involved Kendra, who was in poor health with just a few months left to live.

Part (a) for 10 marks required a calculation of the IHT which would be payable if Kendra were to die. She had made a PET within seven years of death, and a CLT more than seven years before death, but within seven years of making the PET.

This section was generally very well answered. Some candidates did not appreciate that the chargeable gain was irrelevant to this section of the question given that the property was not disposed of. Also, the valuation of the life assurance policy sometimes caused problems, and one common mistake was to only include the difference between the open market value and the proceeds.

Part (b) for 3 marks required candidates to advise Kendra why it would not have been beneficial to make an immediate lifetime gift of a property to her children. The lifetime gift of the property would have resulted in a substantial CGT liability. Very few candidates were able to correctly answer this section, with the main problem being the lack of appreciation that there was no IHT advantage to making a lifetime gift. This was because Kendra would not live long enough to benefit from taper relief, and also because the property's value was not going to change. Even when CGT was mentioned, most candidates did not realise that holding the property until death would eliminate any liability.

Part (c) for 2 marks required candidates to advise Kendra why it might be beneficial for IHT purposes to altering the terms of her will so that part of her estate was instead left to her grandchildren rather than her children. This section also caused problems, with many candidates not appreciating that altering the terms of Kendra's will would not affect the amount of IHT payable on her death. The benefit here was avoiding a potential double charge to IHT on the same assets at some point in the future.