Examiner's report
F6 (UK) Taxation
September 2015

General Comments
There were two sections to the examination paper and all of the questions were compulsory. Section A consisted of 15 multiple choice questions (two marks each) which covered a broad range of syllabus topics. Section B had four questions worth 10 marks each and two longer questions worth 15 marks, each testing the candidates' understanding and application of taxation in more depth. The following paragraphs report on each section and focus on some of the key learning points.

Specific Comments

It was very pleasing to see that once again almost all candidates attempted all of the questions. Candidates preparing for the next examination of F6 (UK) are advised to work through the specimen paper, past exam papers and sample questions discussed here and to carefully review how each of the correct answers were derived. Section A questions aim to provide a broad coverage of the syllabus, and future candidates should aim to revise all areas of the F6 (UK) syllabus, rather than attempting to question spot. The following two questions are reviewed with the aim of giving future candidates an indication of the types of questions asked, guidance on dealing with exam questions and to provide a technical debrief on the topics covered by the specific questions selected.

Example 1

Yui commenced trading on 1 April 2014, and registered for value added tax (VAT) from 1 January 2015. Her first VAT return is for the quarter ended 31 March 2015. During the period 1 April 2014 to 31 March 2015, Yui incurred input VAT of £110 per month in respect of the hire of office equipment.

How much input VAT in respect of the office equipment can Yui reclaim on her VAT return for the quarter ended 31 March 2015?

A £660
B £990
C £330
D £1,320

This question tested candidates' knowledge of the rules for claiming input VAT for services incurred prior to VAT registration. Along with the claim for input VAT relating to the quarter ended 31 March 2015, input VAT can also be reclaimed for services supplied within the six months prior to registration. The correct answer was therefore £110 x 9 (3 + 6) = £990.

Unfortunately, many candidates attempting this question ignored the pre-registration aspect and therefore selected option C, £330 (£110 x 3). In addition, a number of candidates selected option D where input VAT was claimed for the full 12 months from 1 April 2014 to 31 March 2015 (£110 x 12 = £1,320).

Example 2

Mammoth Ltd commenced trading on 1 January 2012. The company's augmented profits have been as follows:

Period	£
Year ended 31 December 2012	524,000
Year ended 31 December 2013	867,000
Year ended 31 December 2014	912,000

Throughout all of these periods, Mammoth Ltd had one associated company.

What is the first year for which Mammoth Ltd will be required to pay its corporation tax liability by quarterly instalments?

A Year ended 31 December 2013
B None of the years ended 31 December 2012, 2013 or 2014
C Year ended 31 December 2014
D Year ended 31 December 2012

This question tested candidates' knowledge of the first year exception from the requirement for a large company to pay its corporation tax liability by quarterly instalments. With one associated company, the relevant profit limit is £750,000 (£1,500,000/2). This limit was first exceeded for the year ended 31 December 2013, but the exception means that instalments are not payable until the year ended 31 December 2014 and thus the correct answer is option C. A number of candidates ignored the exception and chose the year ended 31 December 2013 (option A). Option B was another popular choice, with candidates ignoring the implications of the associated company.

Future candidates should take note that they must not only know the relevant tax rules, but they also have to carefully read and appreciate all aspects of the question.

Section B

Question One

This question was on capital gains tax, and it involved a taxpayer who had both disposed of a main residence and made a part-disposal of an acre of land.

Part (a) of the question required a calculation of the taxpayer's capital gains tax liability for the tax year and was well answered by the majority of candidates. The only consistent mistake was for candidates to consider that the 36-month any-reason period of deemed occupation for principal private residence (PPR) relief was available when calculating the gain on the main residence. This period of deemed occupation for PPR was not available because the unoccupied period was not followed by a period of actual occupation.

Part (b) of the question required an explanation as to why it would have been beneficial for the taxpayer to have delayed the sale of the acre of land. Most candidates realised that delaying the disposal until after the end of the tax year would result in an additional annual exempt amount being available. However, only a few candidates picked up the additional points that the taxpayer had some unused basic rate tax band in the following tax year which would result in a lower rate of capital gains tax being payable and that the due date for the capital gains tax liability would also be deferred.

Question Two

This inheritance tax question was generally fairly well answered and involved an individual who had made various lifetime gifts to other individuals.

Part (a) of the question required candidates to determine how much of the taxpayer's nil rate band was still available after taking account of the various lifetime gifts. This required knowledge of the various inheritance tax exemptions which are available. Although many candidates demonstrated satisfactory knowledge here - workings were often badly laid out, hard to follow, and repeated the same points. It is in such situations that the reading time can be put to good use in planning an appropriate layout.

Part (b) of the question required knowledge of the conditions which have to be met if gifts out of income are to be exempt from inheritance tax. Many candidates struggled with this part of the question, giving all sorts of inappropriate advice such as recommending that the relevant donees marry (so that gifts were in respect of marriage) and ensuring that the taxpayer does not die for seven years rather than focussing on the conditions for the normal expenditure out of income exemption, as the question required.

Part (c) of the question required a basic knowledge of taper relief – when is it available to a taxpayer, and whether the availability of taper relief affects the amount of inheritance tax payable in respect of a person's estate at death. A number of candidates simply copied out (and often explained) the taper relief table from the tax rates and allowances. This was a time consuming approach to gaining one mark. In addition, many candidates did not appreciate that taper relief has no effect as regards the inheritance tax payable on an estate at death.

Question Three

This value added tax (VAT) question was mainly narrative in nature, and was generally not satisfactorily answered.

The question involved a company which had recently commenced trading.

Part (a) of the question required candidates to explain from what date the company was required to register for VAT, and by when it was required to notify HM Revenue and Customs (HMRC) of the registration. Many candidates explained in detail why the company had to register for VAT under the historical test. However, many candidates failed to realise that the earlier future test took precedence. The relevant date was therefore when the company signed a contract for the increased sales.

Part (b) of the question required candidates to state how and when the company would have to submit its quarterly VAT returns and pay any related VAT liability. Very few candidates appreciated here that VAT returns must be filed online, with payments being made electronically.

Part (c) of the question required candidates to state the circumstances when a VAT registered business (not using the VAT cash accounting scheme) would have to account for output VAT at the time that payment is received from a customer. There were many creative answers to this part of the question involving everything from the flat rate scheme to exports. However, all that was required was a basic explanation of the tax point rules for services - output VAT is accounted for at the time that payment is received if a customer pays before the basic tax point and before an invoice is issued (for example, if a deposit is paid).

Part (d) of the question produced some satisfactory answers. It required candidates to advise the company as to why it should be beneficial for the company to use the VAT cash accounting scheme. This was because the company allowed its customers 60 days credit when paying for services (so the payment of output VAT would be postponed), and also because the company was concerned about impairment losses (VAT relief for these is automatic under the cash accounting scheme). Input VAT recovery would not be affected because the company paid for purchase invoices as soon as they were received.

Question Four

This question had three separate scenarios, of which the first and third were fairly well answered and the second was less well answered.

The first scenario in part (a) involved three individuals who were in partnership, preparing accounts to 31 October annually. A fourth partner joined mid-way through an accounting period and the requirement was to calculate the new partner's trading income assessment for his first tax year as a partner. Although many candidates demonstrated satisfactory knowledge here – a large number wasted a significant amount of time by also performing calculations for the three existing partners, despite the requirement only concerning the new partner.

The second scenario in part (b) involved an employee who was provided with a beneficial loan part-way through the tax year. The loan was subsequently increased before the end of the tax year. The basic idea behind this question was that candidates had to calculate the benefit using the average method (they were instructed to use this method), with the interest actually paid to the employer being calculated on a strict basis. However, many candidates failed to read the requirement carefully and thus ignored the instruction to use the average basis when calculating the taxable benefit. In addition, many candidates failed to use proper workings and accordingly became confused mid-way through their calculations.

The third scenario in part (c) involved a self-employed taxpayer who had made a trading loss in the tax year. On the assumption that the taxpayer relieved his trading loss as early as possible, the requirement was to calculate the amount of trading loss carried forward to the next tax year. Once again, many candidates' workings were not well-laid out. Many candidates prepared tax computations for both years for which figures were provided, before realising that all that was required was a loss memorandum. The set off of the brought forward capital loss against the current year chargeable gain was also often overlooked.

Question Five

This was the 15-mark question focussing on income tax and it involved a self-employed taxpayer.

Part (a) of the question involved the calculation of the taxpayer's income tax liability and it was generally satisfactorily answered. In addition to his trading profit, the taxpayer received property income, building society interest and interest from savings certificates. The level of his taxable income meant that the personal allowance was not available.

Candidates need to appreciate that their answers should be as clear as possible and workings should be clearly shown, although these should be kept to the minimum required. For example, only one working was needed for the property income. In addition, it was not always obvious from candidates' answers that the personal allowance was not available and that the interest from the savings certificates was exempt from tax.

Part (b) of the question involved income tax planning as it asked candidates to calculate the income tax which would have been saved if the taxpayer had undertaken a number of tax planning actions (such as contributing to a personal pension scheme) . It was generally well answered, although some candidates took an unnecessarily long approach by redoing the entire income tax computation. Candidates are advised that the use of marginal tax rates can often by used to answer such requirements and this is good practice for those candidates who are planning to attempt the advanced taxation paper.

Question Six

This was the 15-mark question focussing on corporation tax. It involved a company which had recently been incorporated and commenced trading.

Part (a) of the question required candidates to state when an accounting period starts for corporation tax purposes. Most candidates appreciated that an accounting period starts when a company commences to trade, but many could not provide any other circumstances. For example, an accounting period will also start when a company otherwise becomes liable to corporation tax.

Part (b) of the question required a calculation of the company's corporation tax liability for a four-month period. The calculation involved adjusting for disallowed expenditure, calculating the deduction for a lease premium, a detailed capital allowances computation, the treatment of loan interest received for non-trading purposes, and the calculation of marginal relief. The aspect of this question which appeared to cause candidates the most difficulties was the lease premium deduction and the difficulties were largely due to a failure to read the question carefully. Candidates were given the amount of the premium assessed on the landlord as income. However, a lot of candidates misread this figure as being the total premium paid.

Part (c) of the question was reasonably well answered. It required knowledge as to how long a company must retain the records used in preparing a self-assessment corporation tax return, and the consequences of not retaining records for the required period.