Examiner's report

P6 (IRL) Advanced Taxation
June 2016

ACCA

General Comments
The examination consisted of two sections. Section A contained two compulsory questions, question 1 for 35 marks and question 2 for 25 marks. Section B comprised three further questions of 20 marks each, and candidates were required to answer any two questions.

The vast majority of candidates attempted five questions, and there was little evidence of time pressure.
The general standard of answers was satisfactory. In general, presentation was good, although very poor handwriting was a feature of a small number of scripts which were consequently very difficult to correct.

Many candidates were well prepared and achieved a mark of 60% or higher (well done), while unfortunately a number of candidates were not adequately prepared and scored less than 40%.

Candidates were unsuccessful due to:
a) Omission of syllabus topics from their revision and
b) Errors/poor management of the basics

Omissions
The following areas of the syllabus were not adequately covered by many candidates:
- Cessation rules
- Specified intangible assets
- Agricultural relief and "planning to be a farmer"
- Group transfer of a non-current asset in transferror to trading inventory in the transferree.
- Research and development credits

Errors
Basic errors continue to be a problem for unsuccessful candidates.
A presentation was recently delivered on this issue and published on the ACCA website.

The following is a link to that presentation, which is called "from 43% to 53%".

http://www.accaglobal.com/content/dam/ACCA_Global/Students/prof/p6/Study%20guides/P6%20IRL%20Presentation.pdf

Section A
Question One

This 35-mark question covered the cessation of a sole trader, followed by an incorporation of the business. Further aspects included the treatment of expenditure on patents, the foreign earnings deduction and retirement relief.

(a) Very surprisingly, a number of candidates could not apply the rules of cessation properly. This is a basic rule which has important planning implications. A number of candidates

could not apply the actual basis to the final year and were unfamiliar with the review of the penultimate year.
Furthermore, a number of candidates simply stated that in order to avail of the lower CT rate on profits, incorporation should be at the earliest date possible. This analysis omitted the withdrawal of salary from those profits and the effect of the cessation rules on penultimate year profits.

(b) The rules and conditions for incorporation relief were generally well dealt with. Most candidates applied the Revenue concession in relation to the transfer of trade creditors while others treated creditors as other consideration. Full marks were awarded in both cases. However, some candidates were confused over the treatment of cash and also treated this as consideration.
Stamp duty was poorly dealt with, as a number of candidates simply stated that 1% applied to shares and did not break down the component parts of the asset transfer. Those candidates who did apply stamp duty to the assets transferred were confused over the 'pass by delivery' rule which does not apply when shares are transferred in exchange for assets.
While VAT was generally well dealt with, some candidates simply stated VAT did not apply to share transfers.
The issue of a balancing charge was well dealt with, but some candidates did not suggest the possible election to transfer at TWDV.

(c) The tax relief in relation to specified intangible assets was either well known or not. Most candidates were aware of the two options for tax relief but few mentioned the restrictions which applied.

(d) The FED relief was generally well dealt with. Candidates were either well familiar with the rules or simply were not.

(e) Retirement relief was generally well answered.

Four professional marks were available and in general candidates scored well here, although some candidates did not optimise their marks.

Question Two

The scenario outlined six taxation issues and candidates were expected to advise the client to make an unprompted voluntary disclosure and then advise on the amount of tax underpaid and penalty payable.

(a) The rules in relation to making an unprompted qualifying disclosure were well dealt with.

(b) Many candidates addressed the main elements of the six issues in a satisfactory manner.

However, very few candidates demonstrated an understanding of the *linkages between the various tax heads*. With issue (1), the application of VAT to the transaction directly affected the sales proceeds figure for CGT. With issue (3), the payroll taxes underpayment increased the wages expense in the income statement and thereby reduced Case I profit for income tax purposes. There were other income tax adjustments arising with issues (4), (5) and (6) which were generally not recognised.

Issue (1)
Many candidates did not apply development land restrictions to the situation by

- restricting the indexation accordingly and
- not allowing the "non-development" loss on shares to be offset against the development land gain.

Issue (2)
Many candidates did not recognise the gift element of an interest free loan and some incorrectly suggested that there were either BIK or DIRT implications.

Issue (3)
Most candidates recognised the tax issues in relation to the payment of wages but a number of candidates did not re-gross the payment correctly.

Issue (4)
Many candidates struggled with the re-grossing of sales from a gross margin perspective.

Issue (5)
The self-supply of goods for personal use was generally well dealt with.

Most candidates recognised the VAT implications of the transfer of the car for personal use and while most recognised the special rules relating to VAT on cars, some were unsure about the percentage of VAT to be returned.
Most candidates did not consider the capital allowances implications.

The application of the correct penalty was not well dealt with. Under-declaration of sales and evasion of employer taxes are deliberate behaviour and NOT carelessness. A number of candidates were confused between the two 'careless behaviour' categories.

Section B
Question Three:

This question dealt with an inter-generational transfer of assets.
Part (a) required candidates to recommend, with supporting calculations the best of three options (two of which involved the use of a discretionary trust).
The differences between the three options was generally well dealt with.

However some candidates were unsure about the stamp duty implications and many did not recognise that government securities were exempt.
Also many did not recognise that for CGT purposes, government securities were also exempt and could not give rise to loss relief.

The discretionary trust taxes were generally well dealt with. However many candidates did not recognise the implications for the subsequent appointment of trust assets.

The evaluation of the options was poor with many candidates simply taking the least tax option and not considering the commercial benefits of a trust with young children/adults or the wishes of the disposer.

Part (b) sought suggestions on how the tax position could be improved.
Many candidates, but not all, considered the alternative of investing in agricultural property. The benefit for Mark was recognised but few recognised how it could be also implemented for Rosanne, forgetting that she could lease the land to a qualifying individual.

Part (c) required an explanation of how the trust income would be taxed and a calculation of the annual income tax liability of the beneficiaries.
The income tax implications of the trust income were in general not well dealt with. Many candidates did not mention the taxation in the trust at the 20% rate or the passing on of this tax as a credit when taxed in the beneficiary's hands.

Question Four
This question dealt with various group relief issues and was attempted by most candidates.

(a) Some candidates are still confused about the determination of the different loss groups. Unfortunately this had a knock on effect to the taxation of the various issues.

Few candidates restricted the trade loss relief for Roll Ltd for corresponding accounting periods.
Many candidates either did not allow the loss relief to the gain in Shelter or failed to re-gross the gain correctly. Many candidates also did not allow loss relief on a value basis to the rental income in Street Ltd. Overall there was confusion as to how loss relief was granted, i.e. on an 'allowance' basis or a 'tax credit value' basis. Some candidates allowed capital loss relief between groups incorrectly.
While many candidates recognised the clawback of earlier group relief on the transfer of assets, a number of candidates incorrectly calculated the clawback.

(b) Few candidates recognised the different steps in the transfer of a fixed asset in one company as stock in the other company. The main issue of confusion was the implications of the transfer from fixed assets in the recipient company to stock and the options available.

(c) The VAT group registration was largely well dealt with although quite a few candidates did not allow group registration on the basis of shareholding and others simply allowed it as both companies were VAT registered.

Question Five
This question was quite specific and was the least popular question. However candidates who attempted it generally performed well.

(a) Most candidates dealt with the availability of R & D relief. Some candidates however did not restrict the cost of buildings to construction costs only and exclude site cost. A number of candidates did not address the clawback rules.

The utilisation of the credits was largely well dealt with.

(b) The availability of split year relief was largely well dealt with. A common fault however was not to specify that the relief only applied to employment income from date of departure.

(c) SARP was largely well dealt with but some candidates simply suggested split year relief for Frank also. Many candidates did not recognise that the relief is only for income tax purposes and not USC or PRSI.