

# Examiner's report

P6 (UK) Advanced Taxation  
December 2016

The ACCA logo consists of the letters 'ACCA' in a bold, white, sans-serif font, centered within a solid black square.

## General Comments

The exam was in its standard format; section A consisting of the compulsory questions 1 and 2, worth 35 marks and 25 marks respectively, and section B where candidates were required to answer two out of the three questions worth 20 marks each.

In general terms, those candidates who did not perform sufficiently well to achieve a pass in this exam were weak in the following areas.

- They did not spend sufficient time carefully reading the question and thinking before they started writing. This meant that they produced an unstructured answer which did not include sufficient relevant points and/or they wasted time providing information that had not been asked for.
- They did not have sufficient, precise knowledge of the tax rules within the syllabus. This was true in respect of both areas which are not part of the F6 syllabus and also some of the more fundamental rules contained in the F6 syllabus.

Candidates should pay particular attention to the following in order to maximise their chances of success in the exam in the future:

1. Know your stuff
  - Successful candidates are able to demonstrate sufficient, precise knowledge of the UK tax system.
  - This includes knowledge brought forward from the F6 syllabus.
2. Practise questions from past exams with the aim of adopting the style of the model answers. In particular, candidates should practise the often more intellectually demanding Section A style questions.
3. Address the requirement
  - Read the requirement carefully – in the Section A questions the detailed tasks that you are to perform will be set out in one of the documents. It may be helpful to tick off the tasks as you address them. Marks are awarded for satisfying the requirements and not for other information even if it is technically correct.
  - The requirements of each question are carefully worded in order to provide you with guidance as regards the style and content of your answers. You should pay particular attention to the command words (calculate, explain etc), any matters which are not to be covered, and the precise issues you have been asked to address.
  - You should also note any guidance given in the question or in any notes following the requirement regarding the approach you should take when answering the question.
  - Pay attention to the number of marks available – this provides you with a clear indication of the amount of time you should spend on each question part.
4. Don't provide general explanations or long introductions.
  - If you are asked to calculate, without any mention in the requirement of supporting explanations, inclusion of such explanations will not gain marks, but will probably waste time– only provide explanations when you are asked to.
  - Think before you write. Then write whatever is necessary to satisfy the requirement.
  - Apply your knowledge to the facts by reference to the requirement.
5. Think before you start and manage your time
  - Ensure that you allow the correct amount of time for each question.
  - Before you start writing, think about the issues and identify all of the points you intend to address and/or any strategy you intend to adopt to satisfy the requirement.

If you are preparing to resit the exam, think about the number of additional marks you need and identify a strategy to earn them. For example:

- Identify those areas of the syllabus where you are weakest and work to improve your knowledge in those areas. This should include any technical areas brought forward from F6 where necessary.
- Practise past exam questions in order to familiarise yourself with the style of questions that you will have to deal with.
- Ask yourself whether you could improve the way you manage your time in the exam and whether you address all of the parts of all four questions or whether you waste time addressing issues which have not been asked for.
- Make sure that you earn the professional skills marks and that you are prepared to address the ethical issues that may be examined.

Those candidates obtaining marks in the 40s should ensure that they read the various non-technical articles aimed at improving performance in the P6 (UK) exam, which are available on the website.

### **Marks available in respect of professional skills**

Marks were available for professional skills in question 1. In order to earn these marks candidates had to take a sensible approach to solving the problem set in relation to the alternative business structures, provide explanations and calculations that were clear and logical, follow the detailed instructions provided by the 'manager', and adopt a professionally acceptable style. On the whole, the performance of candidates in this area was reasonably good.

### **Specific Comments**

#### **Question One**

This question concerned an unincorporated sole trader who is considering incorporating his business.

The first part of the question required computations of the taxpayer's position as a sole trader and as an employee/shareholder. This is a fundamental area of business and of taxation. There were some very good answers but the majority were not as good as one would have hoped.

Candidates who prepared satisfactory answers to this part of the question:

- included calculations with clear headings;
- did not confuse the income tax position of the individual with the corporation tax position of the company;
- recognised the importance of national insurance contributions when comparing the tax position of the alternative structures;
- followed the instructions in the question carefully.

The second part of the question concerned research and development expenditure. Many candidates knew a certain amount about this area of corporate taxation but they did not necessarily earn as good a mark as they could have.

The key to scoring a good mark was to address the precise matters set out in the email from the 'manager' and not to just describe the rules in a general manner. Candidates had to set out the types of costs which do and do not qualify for the additional tax relief. Then they needed to explain the effect of the costs on the shareholders post-tax income. In order to carry out this latter task candidates had to follow the additional tax deduction through the corporation tax computation, recognise the additional dividend created as a result and then consider the income tax on the dividend.

The final part of the question concerned three further matters relating to the incorporation of the business. It was important that candidates addressed all three matters and most did so.

The majority of candidates were aware of the way in which cash left on a loan account could enable the use of the capital gains tax (CGT) annual exempt amount but a great many were unable to apply the rules accurately to the situation.

The capital allowances implications were not handled particularly well because candidates wrote about what would happen generally as opposed to what would happen in the particular situation in the question.

The value added tax (VAT) implications were handled well by the majority of candidates with many scoring all four of the available marks. This was perhaps the difference between passing and failing the question for many candidates and, as it was the last aspect of the last part of the question, demonstrated the importance of answering all aspects of all parts of each question.

## Question Two

This question concerned the CGT and inheritance tax (IHT) implications of making gifts of shares and other assets. Again, although there were some very good answers, many candidates could have done better than they did. The question was in three main parts.

Candidates who prepared satisfactory answers to this part of the question:

- distinguished clearly between CGT and IHT and did not confuse the rules of these two taxes;
- did not waste time explaining matters that they had been instructed not to address;
- spent more time thinking, such that they were able to make a series of brief, relevant points;
- recognised that the second part of the question concerned CGT **only** and so did not waste time addressing IHT.

Part (a) of the question required an explanation of the IHT advantages of lifetime giving but candidates were told that the person they were providing the information to already knew certain things, such that these points were not to be addressed. This part of the question was done quite well, although many candidates wasted time providing unnecessary explanations.

Candidates also had to list the additional information required from the client in connection with certain aspects of CGT and IHT. In order to do this, candidates needed to think about the rules of each technical area and identify the information needed to determine whether or not the particular rules were satisfied. Unfortunately, many candidates simply wrote about the technical areas in general terms rather than listing out precise, relevant points.

Part (b) of the question concerned the CGT implications of a number of proposed gifts. The computational aspect of this question required precise knowledge of CGT gift relief. Most candidates would have benefited from thinking about how to approach this part before they started writing. The written aspect of this question concerned the timing of gifts. Again, it was clear that candidates were writing without thinking. Almost all candidates would have been aware that a boat is a wasting chattel, such that it is exempt from CGT but very few candidates made this point. Instead they wasted time writing about the timing of the gift when, of course, the timing was irrelevant from a tax point of view.

Part (c) of the question concerned professional and ethical issues and was done well.

### Question Three

This question concerned various group aspects of corporation tax and was in three main parts.

Part (a) concerned group aspects of chargeable gains. It required a detailed knowledge of the rules to be applied to the specific facts of the question. On the whole candidates did reasonably well. However, a minority confused the rules of group relief with the rules concerning chargeable gains.

Candidates who did well were able to:

- deal with the facts of the question in a logical manner;
- maintain a separation between the rules concerning group chargeable gains and those concerning group relief.

Part (b) of the question required calculations in connection with group relief and double tax relief. There was quite a lot to do here, such that candidates needed to be able to apply the rules and prepare computations briskly.

Those who did well were able to:

- prepare answers in a methodical manner;
- provide a clear calculation of the tax saving following a surrender of losses;
- recalculate the double tax relief following the change in taxable total profits due to the losses surrendered.

The final part of the question concerned corporation tax group payment arrangements. There were some very good answers to this part of the question. However, there were also quite a few candidates who knew very little about this area or who confused it with VAT group registration.

### Question Four

This question concerned various taxation implications of being self-employed, including the basis of assessment, business property relief and VAT. This question was in four parts.

Part (a) concerned the closing year basis of assessment rules for a partner in a partnership. The basis of assessment rules for a self-employed taxpayer are examined very frequently and the performance of candidates is almost always disappointing. This part was no exception with the majority of candidates producing poor answers.

Candidates would do well to invest some time at the revision stage of their studies to memorise the opening and closing year rules, and the rules concerning trading losses, and ensure that they are able to apply those rules accurately to the facts in a question.

Part (b) of the question concerned the availability of business property relief and the IHT annual exemptions depending on whether a gift was made during the donor's lifetime or via the donor's will. The candidates who did well:

- did not confuse IHT with CGT;
- had a precise knowledge of the rules of these two aspects of IHT;
- clearly distinguished between the implications of making a lifetime gift and making a gift via a will.

Part (c) concerned the VAT capital goods scheme and the reverse charge procedure. These are not the easiest aspects of VAT and many candidates produced confused answers.

Candidates may find it helpful to recognise that chronology is a useful way of organising the information in their answers. Weaker answers often appear to suggest that the events in the question have all happened at the same point in time when, of course, the exact opposite is true. All of the events in a question happen in a particular order and it is often helpful to think of them in that order, addressing each relevant event in turn.

In terms of this particular question, the first thing that happened was the purchase of the building and then the business began to make exempt supplies. In order to produce a clear answer with the possibility of earning the maximum number of marks, it was important to address these two events in turn rather than as if they had happened at the same time.

The final part of the question concerned the tax saving in respect of tax deductible payments. The key here was to recognise that the reduction in taxable income also had an effect on the taxpayer's personal allowance. Candidates needed to think before they started writing in order to identify this point.

#### **Question Five**

This question concerned employment income benefits and share incentive schemes and was in two parts.

Part (a) of the question concerned the employment income benefit where an employee is provided with accommodation. There were two alternative strategies to consider and candidates needed to have precise knowledge of the rules if they were to score well. The performance in this part of the question was very good with many candidates scoring excellent marks.

Part (b), the second and final part of the question, concerned enterprise management incentive (EMI) schemes and company share option plans (CSOP). The question required candidates to consider particular commercial aspects of the schemes in relation to the various conditions which must be satisfied in order for the schemes to be tax-advantageous.

There were some very good answers. The candidates who produced these answers:

- had a precise knowledge of the rules of the two schemes;
- addressed the three specific commercial areas set out in the question clearly and carefully;
- did not waste time addressing other aspects of the schemes;
- satisfied the requirement in explaining 'why' the EMI scheme would be a more appropriate choice.

Candidates were also required to determine the net proceeds, after all taxes, following a sale of shares acquired under an EMI scheme. This aspect of the question was not done particularly well. Again, as mentioned in the comments on question 4, candidates would have found it useful to address the various stages of the acquisition and sale of the shares in turn, in order to ensure that all of the possible incidents of taxation were addressed.