

# Examiner's report

F6 Taxation (UK)

December 2011

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

## General Comments

This was another good performance, although many candidates achieved a pass mark without particularly excelling. There are two aspects that are worth mentioning. The first is that candidates should sometimes stand back and think about their answers to see whether they make sense. For example, for question 5 part (c) it should have been fairly obvious that an answer with six marks attached to it was not simply that no inheritance tax was due. The second aspect is that candidates should give particular attention to the requirements, especially any guidance that is given. In this paper they would have seen that in question 3 there was no need to calculate any CGT liability, in question 4 they were given advice on how to layout their answer, and in question 5 they were told to ignore annual exemptions - making their answer much more straightforward.

## Specific Comments

### Question One

*In part (a) candidates had to calculate the respective income tax liabilities of three taxpayers. The first taxpayer was aged over 75, and his level of net income resulted in a reduced age allowance. The second taxpayer had net income in excess of £100,000 resulting in a reduced personal allowance. The third taxpayer received a company car and fuel benefit from his employer, and was subject to the additional rate of income tax. In part (b) candidates had to calculate the respective national insurance contributions, if any, suffered by the three taxpayers. Then in part (c) candidates had to explain (1) how the income tax liability of the second taxpayer would have been reduced if he had contributed a sufficient amount into a personal pension scheme to reduce his net income to exactly £100,000, and (2) how the income tax liability of the third taxpayer would have been reduced if his contributions towards the company car and fuel benefits had been allocated on a more beneficial basis.*

**Part (a)** was very well answered, particularly for the second and third taxpayers.

The only aspect which sometimes caused problems was the benefit calculations. For the car benefit it was not always appreciated that the list price was restricted to a maximum figure of £80,000. For the fuel benefit, the contribution towards the cost of fuel was often incorrectly deducted. There were few problems in **part (b)** as regards the calculation of the national insurance contributions. **Part (c)** was the most difficult aspect on the paper, and it was pleasing to see several good attempts. For the second taxpayer most candidates appreciated that the basic rate tax band would be extended by the amount of the pension contribution, and several candidates realised that that the amount of contribution was the exact amount required so that the personal allowance was not restricted. For the third taxpayer several candidates stated that tax could be saved if the whole of the contributions were set against just the car benefit, and marks were awarded for this approach. However, the most beneficial basis was to allocate additional contributions towards the fuel benefit so as to cover the full cost of fuel for private journeys – and a few candidates did take this approach.

### Question Two

*In part (a) candidates had to state when an accounting period starts and when an accounting period finishes for corporation tax purposes. In part (b) candidates were required to calculate a company's tax adjusted trading loss for the three-month period ended 31 March 2011. This was the company's final period of trading. Then in part (c) candidates had to calculate the company's taxable total profits for the four-month period ended 31 March 2007, the years ended 31 March 2008, 2009 and 2010 and the nine-month period ended 31 December 2010. The company had also made a trading loss for the four-month period ended 31 March 2007, and computations were on the assumption that the company claimed relief for its trading losses on the most beneficial basis. In part (d) candidates had to (1) calculate the amount of VAT payable by the company in respect of its final VAT return for the quarter ended 31 March 2011, and (2) how the answer to part (1) would have differed if the company had instead sold its entire business as a going concern to another VAT registered business.*

**Part (a)** surprisingly caused quite a few problems, with a number of candidates discussing long periods of account or, even worse, the basis period rules for unincorporated businesses. Some candidates just stated that an accounting period starts when trading commences, and ends when trading ceases – which would imply that all companies have just one long accounting period. **Part (b)** was very well answered, with many very good answers. The only aspect consistently answered incorrectly was the treatment of a purchased asset. In the final capital allowances computation no allowances are given, so the addition should simply have been added to the main pool. In **part (c)** many candidates overlooked the trading loss for the final period of trading. The VAT calculation in **part (d)** was generally well answered, although few candidates appreciated that output VAT would not be due on the sale of inventory and non-current assets if the business was sole as a going concern. Many candidates simply stated that no VAT would be due, which was too vague to score marks.

### Question Three

*Candidates were required to calculate a taxpayer's taxable gains for the tax year 2010-11. During the year the taxpayer had disposed of a principal private residence, a wasting asset, a chattel and a motor car. The taxpayer had also made a part disposal of land, and a gift of unquoted shares at less than market value for which a holdover relief election was made.*

This question was well answered, with only the principal private residence consistently causing problems. However, quite a few candidates wasted time by calculating the taxpayer's tax liability when the requirement was to just calculate the taxable gains. The easiest approach to the principal private residence exemption was to start with the total period of ownership and then to deduct the exempt periods. Most of these were straightforward, being the periods of actual occupation, any period up to 36 months, working elsewhere in the UK up to 48 months, and the final 36 months of ownership. The only difficult aspect was a period working overseas which was not exempt as it was not followed by a period of actual occupation. The easy half-mark for deducting the annual exempt amount was often missed.

### Question Four

***Part (a)** required candidates to calculate a taxpayer's property business loss, and then in **part (b)** they had to advise the taxpayer as to the possible ways in which the loss could be relieved. The taxpayer had a furnished holiday letting, an unfurnished leasehold property for which a premium had been received, and another unfurnished leasehold property where unpaid rent resulted in an impairment loss. The taxpayer also rented out a furnished room in her main residence.*

**Part (a)** of this question was very well answered, with no aspect causing significant problems. However, several candidates claimed the wear and tear allowance for the furnished holiday letting rather than capital allowances. Although candidates were not penalised if they combined the property losses into just one calculation, not separating out the furnished holiday letting loss invariably meant that marks were then lost in **part (b)** as marks were not awarded for vague details on loss relief if it was not clearly stated as to which reliefs were available for which type of loss.

### Question Five

*In **part (a)** candidates had to advise a holding company as to the maximum amount of group relief that could be claimed from a 100% subsidiary company. This required a comparison of the potential claim by the holding company with the maximum possible surrender from the subsidiary company. In **part (b)** candidates were required to calculate a company's corporation tax liability after taking account of double taxation relief. The company had two overseas branches, and it was necessary to allocate gift aid donations on the most beneficial basis. Then in **part (c)** candidates had to calculate the inheritance tax that would be payable as a result of a taxpayer's gift to a trust, and the additional inheritance tax that would be payable if the taxpayer were to die between four and five years of making the gift. The taxpayer paid the inheritance tax arising from the gift so grossing up was necessary.*

This was the least well answered of the three 15 mark questions, although it was often the last one to be answered with time pressure being an issue. **Part (a)** was not as complicated as candidates tried to make it, and remembering basic principles would have eliminated the worst of the errors – only current year losses can be group relieved, with no relief available for capital losses. In **part (b)**, candidates were helped by being told how to layout their answers, but this advice was often ignored. Many candidates made the calculations far more difficult than was necessary by not appreciating that corporation tax was at the small profits rate of 21% - they instead applied the marginal rate. A surprisingly common mistake was to deduct double taxation relief from taxable total profits rather than reducing the corporation tax liability. Candidates were again helped in **part (c)** by being told to ignore annual exemptions, but many also ignored these instructions. They were not penalised for this, but it made the calculations a bit more complicated than was necessary. When calculating the additional liability arising on death many candidates had problems computing the amount of brought forward gross chargeable transfer, and taper relief was often calculated and deducted at the wrong point in the computation. Candidates should also appreciate that examinations are not quite the same as real life. With a six mark section it should be obvious that the value of the transfer was more than the annual exemption of £325,000 - many candidates calculating the transfer as  $200,000 \times £1 = £200,000$ . Using any of the other values would have enabled some marks to be obtained. However, there were many perfect answers to part (c), with the six marks obtained often being the difference between a pass and a fail.