Answers

Section C *Marks*

31 Additional director's remuneration

(1) Kaya's revised income tax liability will be:

	£	
Director's remuneration (30,000 + 25,000)	55,000	½
Dividend income	45,000	½
	100,000	
Personal allowance	(11,500)	½
Taxable income	88,500	
Income tax		
£		
33,500 at 20%	6,700	½
10,000 (55,000 – 11,500 – 33,500) at 40%	4,000	½
5,000 at 0%	0	½
40,000 (45,000 – 5,000) at 32·5%	13,000	½
88,500		
Income tax liability	23,700	

(2) Kaya's revised employee class 1 national insurance contributions (NICs) will be:

	£	
£		
36,836 (45,000 – 8,164) at 12%	4,420	
10,000 (55,000 – 45,000) at 2%	200	1½
Class 1 NICs	4,620	

(3) Hopi Ltd's revised employer's class 1 NICs will be £6,463 (3,013 + 3,450 (25,000 at 13·8%)). 1

(4) Hopi Ltd's revised corporation tax liability will be £9,794 ((80,000 – 25,000 – 3,450) at 19%). 1

Tutorial note: *This could alternatively be calculated as 15,200 – ((25,000 + 3,450) at 19%) = £9,794.*

Additional dividend income

(1) Kaya's revised income tax liability will be £22,325 (14,200 + 8,125 (25,000 at 32·5%)). 1½

(2) The class 1 NICs for both Kaya and Hopi Ltd will remain unchanged at £2,620 and £3,013 respectively. 1

(3) Hopi Ltd's corporation tax liability will remain unchanged at £15,200. ½

10

		Marks

32 (a) 2015–16

Danh was not resident in the UK. Danh was permitted two UK ties because he was in the UK between 91 and 120 days and was not resident in the UK during the three previous tax years. Danh only had two UK ties, which were having a house in the UK (which was made use of) and doing substantive work in the UK. 2

2016–17

Danh was resident in the UK. Danh had three UK ties for this year because he was also in the UK for more than 90 days during the previous tax year. 1

3

(b) Danh – Income tax computation 2017–18

	£	
Trading profit (working 1)	73,176	W1
Property income (working 2)	9,170	W2
	82,346	
Interest paid	(875)	½
Partnership loss (12,600 x 7/12 x 20%)	(1,470)	1½
	80,001	
Personal allowance	(11,500)	½
Taxable income	68,501	
£		
33,500 at 20%	6,700	½
35,001 at 40%	14,000	½
68,501		
Interest relief (1,250 (5,000 x 25%) at 20%)	(250)	1
Income tax liability	20,450	

Working 1 – Trading profit for the eight-month period ended 5 April 2018

	£	
Net profit	70,200	
Depreciation	2,300	½
Motor expenses (3,300 x 4,000/12,000)	1,100	1
Accountancy	0	½
Legal fees in connection with the grant of a new lease	1,460	½
Use of office (4,200 x 1/6)	(700)	1
Capital allowances (14,800 x 18% x 8/12 x 8,000/12,000)	(1,184)	2
Trading profit	73,176	

Working 2 – Property income

	£	
Rent receivable	14,400	½
Mortgage interest (5,000 x 75%)	(3,750)	1
Other expenses	(1,480)	½
	9,170	
		12
		15

			Marks
33 (a) Solo Ltd – Trading loss for the year ended 31 March 2018			
		£	
Trading loss		(151,300)	
Deduction for lease premium (working)		(2,150)	W
Balancing charge		4,300	1
		(149,150)	

Working – Deduction for lease premium

		£	
Premium received		20,000	½
Less: 20,000 x 2% x (8 – 1)		(2,800)	1
		17,200	
Deduction 17,200/8 =		2,150	½
			3

(b) Solo Ltd – Corporation tax computation for the year ended 31 March 2018

	£	£	
Property business income (working 1)		9,480	W1
Chargeable gain (working 2)	16,198		W2
Capital losses brought forward (3,300 + 2,100)	(5,400)		1
		10,798	
		20,278	
Trading loss (s.37 CTA 2010)		(20,278)	½
Taxable total profits		0	

Working 1 – Property business income

		£	
Rent receivable (7,800 + (7,800 x 2/6))		10,400	1
Security deposit		0	½
Insurance		(920)	1
Property business income		9,480	

Tutorial note: *A security deposit is initially not treated as income when received, and its repayment will not be treated as an expense.*

Working 2 – Chargeable gain

	£	£	
Purchase 8 December 2017			
Disposal proceeds (31,200 x 1,000/6,500)	4,800		½
Cost	(4,600)		½
		200	
Share pool			
Disposal proceeds (31,200 x 5,500/6,500)	26,400		½
Indexed cost (working 3)	(10,402)		W3
		15,998	
Chargeable gain		16,198	

Marks

Working 3 – Share pool

	Number	Indexed cost £	
Purchase June 2006	20,000	27,000	½
Indexation to December 2017 (27,000 x (278·1 – 198·5)/198·5)		10,827	1
		37,827	
Disposal December 2017 (37,827 x 5,500/20,000)	(5,500)	(10,402)	1
Balance carried forward	14,500	27,425	
			8

Tutorial note: *The disposal is first matched with the shares purchased during the nine days prior to the disposal, and then against the share pool.*

(c) Solo Ltd – Taxable total profits for the periods ended 31 December 2016 and 31 March 2017

	Year ended 31 December 2016 £	Period ended 31 March 2017 £	
Trading profit	35,900	12,300	½
Property business income	12,100	4,200	½
Chargeable gains	0	0	½
	48,000	16,500	
Loss relief (s.37 CTA 2010) (working)	(36,000)	(16,500)	W½
	12,000	0	
Qualifying charitable donations	(1,200)	wasted	1
Taxable total profits	10,800	0	

Working – Loss relief

Year ended 31 December 2016	48,000 x 9/12 = £36,000	1
		4
		15

Additional marking guide for section C		*Marks available*	*Marks awarded*
31	**Kaya**		
	Taxable income	1½	
	Income tax	2	
	NICs	2½	
	Corporation tax	1	
	Dividend income	3	
		10	
32	**Danh**		
(a)	Residence	3	
(b)	Partnership	2	
	Personal allowance	½	
	Income tax	1	
	Interest	1	
	Profit	3½	
	Capital allowances	2	
	Property	2	
		12	
		15	
33	**Solo**		
(a)	Balancing charge	1	
	Premium	2	
		3	
(b)	Capital losses	1	
	Trading loss	½	
	Property	2½	
	Gain	4	
		8	
(c)	TTP	4	
		15	

F6 Examiner's commentary on
March/June 2018 sample questions

This commentary has been written to accompany the published sample questions and answers and is written based on the observations of markers. The aim is to provide constructive guidance for future candidates and their tutors, giving insight into what the marking team is looking for, and flagging pitfalls encountered by candidates who sat these questions.

Question 31

This question involved Kaya who was the managing director of, and 100% shareholder in, Hopi Ltd. For the year ended 5 April 2018, Kaya was planning to pay herself a bonus of £25,000, but was unsure whether to take this as additional director's remuneration or as an additional dividend. Tax figures were provided based on the pre-planning level of director's remuneration and dividends.

The requirement for 10 marks was to calculate the revised tax and national insurance contributions (NICs) for Kaya and Hopi Ltd for the year ended 5 April 2018 if, on 31 March 2018, Kaya paid herself a bonus of £25,000 (1) as additional director's remuneration or (2) as an additional dividend. Those candidates who understood basic tax rules had no difficulty answering this question.

As warned in previous reports, where tax figures are given for the original scenario, candidates should never attempt to recalculate these figures for themselves. All this does is lose valuable time with candidates producing three sets of workings rather than the expected two. Candidates should always read the requirements very carefully. These types of questions often require a summary or a conclusion, but neither was necessary for this question – again those candidates who provided one lost a bit more time.

Where computations are required for two different scenarios, candidates should clearly indicate which scenario is being answered. It is much better to deal with one scenario first, then the second, rather than have a mix of computations dealing with one tax at a time, such as all the income tax and class 1 NIC computations for Kaya, then the corporation tax and class 1 NIC calculations for Hopi Ltd. Although full marks are awarded for correct answers however the information is presented, dealing with one scenario at a time can help candidates to ensure they have covered all aspects in their answers.

Some of the calculations in this question required full computations (such as Kaya's income tax liability under the additional director's remuneration alternative), whereas others (such as Kaya's income tax liability under the additional dividend alternative) could be calculated by working at the margin. Appreciating where full computations can be avoided saves time as well as reducing the complexity of the workings. Also, under the additional dividend alternative, many candidates did not appreciate that the class 1 NICs and Hopi Ltd's corporation tax liability would not change from the original figures provided.

In summary, although many candidates correctly calculated most, if not all, of the revised tax and NICs, they often took a much longer route in reaching their answer than was necessary. Working through past examination questions will help candidates familiarise themselves with the best approach to be taken when answering these types of questions. Also, it is important that candidates appreciate the interactions which can arise in these questions, and an article has been published covering many of the scenarios which could be examined.

Question 32

This income tax question involved Danh who on 6 August 2017 commenced self-employment as a sole trader, preparing his statement of profit or loss for the eight-month period ended 5 April 2018. In addition, on

6 September 2017, Danh joined an existing partnership. For the year ended 5 April 2018, the partnership made a trading loss. For the tax year 2017–18, Danh also had property income, having purchased a rental property on 6 April 2017. The property purchase was partly financed with a repayment mortgage, and Danh paid mortgage interest during the tax year 2017–18.

Up to and including the tax year 2014–15, Danh had always been automatically treated as not resident in the UK, spending fewer than 46 days in the UK each year. Danh was automatically resident for the tax year 2017–18, but he was unsure of his residence status for the tax years 2015–16 and 2016–17. For these two tax years, Danh was neither automatically not resident in the UK nor automatically resident.

Part (a) for 3 marks required candidates to explain whether Danh was treated as resident or not resident in the UK for each of the tax years 2015–16 and 2016–17. This section was reasonably well answered, although a number of candidates did not appreciate that there would be one additional UK tie for the tax year 2016–17. This is often the case where a question covers two tax years since for the second year a taxpayer will have the additional UK tie of being in the UK for more than 90 days during the previous tax year.

Where a question makes it clear that that the tests of automatic residence and automatic non-residence are not relevant, then there is nothing to be gained from explaining why this is the case. It should have been quite obvious from reading the question that only residence based on UK ties needed to be considered. The three marks available for this section was a good indication as to the length of answer required.

Part (b) for 12 marks required candidates to calculate Danh's income tax liability for the tax year 2017–18. This section was very well answered, and there were many perfect responses. However, the following points should be noted when answering this style of question:

- Candidates should think carefully about which workings can be included as one-line calculations within the main computation and which need their own separate working. For example, the partnership loss calculation of £12,600 x 7/12 x 20% = 1,470 was easily included within the main computation which would have saved candidates time. The only aspects which warranted separate workings here were the trading profit and property income.

- As mentioned above, the calculation for the partnership loss was fairly straightforward. There was no need to work out the loss allocations for the other partners and such workings simply used valuable time.

- Candidates should be particularly aware of recent tax changes such as property income finance costs where tax relief for 25% of such costs is restricted to the basic rate in the tax year 2017–18. This is why an annual Finance Act update article is published.

- Practice as many computations as possible. If this is done, basic mistakes such as applying the motor car benefit rules rather than claiming capital allowances should be avoided.

- As stated in the requirements, candidates should always clearly indicate (by the use of a zero) any items which do not require adjustment – the accountancy fees were deductible when calculating the trading profit, but this needed to be indicated.

- With computations containing both additions and deductions, candidates should be very careful to indicate which is which. A single column approach with deductions shown in brackets should avoid any confusion.

- Candidates need to appreciate that each source of income is self-contained. It is not technically correct to show all the receipts from each source first (such as rent receivable), and then the various deductions shown later in the main computation (such as property income deductions). With a separate working for property income, just the one figure for property income should then be included in the main taxable income computation.

Question 33

This corporation tax question involved Solo Ltd. The company had made a tax-adjusted trading loss for the year ended 31 March 2018, but this was before making adjustments required for a premium paid to acquire a leasehold office building, and capital allowances.

Part (a) for 3 marks required candidates to calculate Solo Ltd's revised tax-adjusted trading loss for the year ended 31 March 2018. This section was quite well answered. However, when dealing with a trading loss, candidates need to be very careful that adjustments are correctly added or deducted. Treating the loss as a negative means that there is no need to change the approach from that used for a trading profit. A number of candidates did not appreciate that there was a balancing charge because the disposal proceeds for the plant and machinery main pool exceeded the written down value brought forward.

Part (b) for 8 marks asked candidates to prepare a corporation tax computation for the year ended 31 March 2018 showing taxable total profits. This was on the basis that Solo Ltd claimed relief for its trading loss against its total profits. The requirement meant that candidates had to calculate property business income, calculate a chargeable gain on a share disposal, deduct brought forward capital losses from the gain, and then deduct the trading loss so that taxable total profits were nil. This section was again well answered. One aspect which consistently caused difficulty was candidates not preparing a separate gain calculation for the share purchase made during the preceding nine days. A number of candidates incorrectly restricted the insurance deduction in the property business income calculation to 8/12ths because the building was unoccupied from 1 April to 31 July 2017.

Information was provided in date order, and candidates often tried to use the details provided for the year ended 31 December 2016 and the period ended 31 March 2017 in this section of the question. The only details which were relevant were the capital losses, and these were often omitted in any case.

Part (c) for 4 marks required candidates to calculate Solo Ltd's taxable total profits for the year ended 31 December 2016 and the three-month period ended 31 March 2017. This was on the basis that the company claimed relief for the remainder of its trading loss as early as possible. This section was very well answered, and it was pleasing to see most candidates correctly restricting the trading loss set off for the year ended 31 December 2016 to 9/12ths of the total profits. Candidates should note that where two accounting periods are involved, then a two-column approach avoids the need to write out descriptions twice.