Examiner's report

F6 (UK) Taxation
December 2016

ACCA

Introduction

The performance at the December 2016 diet was good and there were some excellent individual performances.

General Paper Comments

There were three 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 consisted of three 10-mark case questions (each comprising five two-mark multiple choice questions). Section C had one question worth 10 marks 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 most of the questions Candidates preparing for the next examination of F6UK 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 1 to 15)

Section A questions aim to provide a broad coverage of the syllabus, and future candidates should aim to revise all areas of the F6UK syllabus, rather than attempting to question spot. The following question is 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 question selected.

Example

Acasta Ltd owns 75% of the ordinary share capital of Barge Ltd and 100% of the ordinary share capital of Coracle Ltd. Barge Ltd owns 75% of the ordinary share capital of Dhow Ltd. Coracle Ltd owns 51% of the ordinary share capital of Eight Ltd.

Which companies, along with Coracle Ltd, are within Acasta Ltd's chargeable gains group?

A Barge Ltd, Dhow Ltd and Eight Ltd
B Barge Ltd only
C Barge Ltd and Dhow Ltd only
D None of the other companies

This question tested candidates' knowledge of the group relationship which is necessary for chargeable gains purposes. The most popular answer was B, with candidates appreciating that Barge Ltd was included because of the 75% group relationship with Acasta Ltd (and that Eight Ltd was correspondingly excluded). However, Dhow Ltd is also included in the chargeable gains group because the 75% group relationship need only be met at each level, subject to Acasta Ltd having an effective interest of over 50% (and 75% of 75% is 56.25%). So the correct answer was C.

This demonstrates the need to carefully consider each alternative – not just quickly jumping to the most obvious one.

Section B (questions 16 to 30)

In common with Section A, it was very pleasing to see that almost all candidates attempted all of the questions. In broad terms, candidates performed better in Section B than they did in Section A.

One question involving inheritance tax caused particular problems. The requirement was to establish how much inheritance tax was payable in respect of a chargeable lifetime transfer as a result of the donor's death. The chargeable lifetime transfer had been preceded by a potentially exempt transfer. In selecting the most popular alternative, candidates failed to take account of the £3,000 annual exemptions which were available. In selecting the second most popular alternative, candidates did not appreciate that the two gifts were made in consecutive tax years, meaning that three annual exemptions were available rather than the two used in this option.

This demonstrates just how careful candidates need to be in using each piece of information given, be it a date, number or fact.

Section C (questions 31 to 33)

Question 31

This question involved a taxpayer who had just cashed in a substantial share portfolio and was considering what to do with the proceeds. The options were:

(a) Making a lifetime cash gift of £300,000 to a trust with the funds then being held for the benefit of the taxpayer's two young children. The requirement was to explain why this was good inheritance tax planning given that the taxpayer had a substantial estate.

(b) Making the maximum possible amount of additional gross personal pension contribution for the tax year 2015-16, but only to the extent that the contribution would attract tax relief at the higher rate of income tax. The taxpayer was already contributing £500 per month into a personal pension scheme. The requirement was to (1) advise the taxpayer of the amount of additional gross personal pension contribution which he could make for the tax year 2015-16 benefiting from tax relief at the higher rate of income tax, and to explain why this is a tax efficient approach to pension saving, and (2) to calculate the amount of unused pension annual allowances which the taxpayer could carry forward to the tax year 2016-17.

(c) Investing the maximum possible amounts into stocks and shares ISAs during the following 30 days (assuming a current date of 15 March 2016), with the requirement being to advise the taxpayer of this maximum amount.

This question proved difficult for many candidates, with some aspects consistently causing problems:

- As regards part (a), long, detailed, computations were often provided when the answer was quite straightforward. For example, the gift would have reduced the taxpayer's death estate by £300,000, so the inheritance tax saving was simply £120,000 (£300,000 at 40%). There was no need for before and after computations.

- As regards part (b), few candidates appreciated that restricting the amount of personal pension contributions to the amount qualifying for tax relief at the higher rate minimises the cost of pension saving because each £100 saved effectively only costs £60 (£100 less 40% tax relief).

- As regards part (c), very few candidates realised that the 30-day period fell into two tax years, so the taxpayer could invest £15,240 by 5 April 2016, and then another £15,240 (using the tax year 2015-16 limit) on or after 6 April 2016.

Question 32

This was the income tax question. It was well answered, and involved an employer company that had provided various benefits to four of its employees. The benefits provided were a company motor car (the employee had made a capital contribution of £5,600 towards the cost of the motor car), fuel for private journeys, a beneficial loan (the employee was repaying the capital of the loan on a monthly basis, with the taxable benefit calculated using the average method), a mobile telephone (a smartphone mainly used by the employee for personal internet access), a home entertainment system for an employee's personal use (the value at the start of tax year was also given), £10,400 towards an employee's removal expenses and related legal costs, and an employee's medical costs of £340 (the employee had been away from work due to an injury and the medical treatment was to assist their return to work).

For part (a), the requirement was to state how employers are required to report details of employees' taxable benefits to HM Revenue and Customs following the end of the tax year, and the deadline for submitting this information. Many candidates appreciated that reporting is done using form P11D, but the submission deadline was often not known. Less well prepared candidates often discussed (at length) submission details for self-assessment tax returns.

Part (b) required a calculation of the taxable benefits which the employer would have had to report to HM Revenue and Customs in respect of each of its employees. There were many exceptional answers to this section. Common mistakes included:

- For the car and fuel benefits, not ignoring the fuel cost and the mileage figures – both of which were irrelevant to the benefit calculations.

- For the beneficial loan, not commencing calculations with the amount of the loan outstanding at the start of the tax year – this figure was given – but instead trying to work from the original loan amount.

- For the home entertainment system, using the value at the start of tax year rather than the original purchase price.

For part (c), the requirement was to calculate the class 1A national insurance contributions which the employer would have had to pay in respect of its employees' taxable benefits, and to state when this would have been due if paid electronically. The section was reasonably well answered, although a few candidates included employee salaries when calculating the class 1A national insurance contributions.

Question 33

This was the corporation tax question, involving a company which had commenced trading on 1 August 2015, preparing its first accounts for the eight-month period ended 31 March 2016. The company was incorporated in the UK, but its three directors were all non-resident with board meetings being held overseas.

For part (a), candidates were required to state whether the company was resident or not resident in the UK for corporation tax purposes. This requirement resulted in a very surprising amount of incorrect answers, with at least half the candidates deciding that the company was not resident because of its central management and control being exercised overseas.

Part (b) required a calculation of the company's trading loss, property business loss and capital loss. As regards the trading loss, this involved pre-trading expenditure, a deduction for a lease premium and capital allowances. This section was generally very well answered, although there were a couple of consistent problems. Firstly, it was often not appreciated that a second-hand motor car does not qualify for the 100% first year allowance. And secondly, indexation allowance was often used to increase the capital loss.

For part (c), candidates were required to explain how the company would have been able to relieve its trading loss, property business loss and capital loss. Provided candidates appreciated that it was the company's first period of trading, this section was then well answered. However, candidates who overlooked this basic fact spent a lot of time discussing all the various (irrelevant) loss reliefs, with a few candidates discussing the income tax relief for a loss incurred in the early years of a trade.