

Examiner's report

F6 (UK) Taxation
June 2016

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

General Comments

There were two 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 had four questions worth 10 marks each 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 all 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 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 questions selected.

Example

Karla submitted her self-assessment tax return for the tax year 2014-15 on 31 March 2016.

What is the latest date by which HM Revenue and Customs (HMRC) can give written notice to Karla that they intend to commence a compliance check into her self-assessment tax return for the tax year 2014-15?

- A 30 April 2017
- B 31 January 2017
- C 31 March 2017
- D 31 January 2018

This question tested candidates' knowledge of the period during which HM Revenue and Customs can commence a compliance check. If the self-assessment tax return is filed on time, then the deadline is 12 months from the filing date – in this case, 31 March 2017. And that was the most popular option. The second most popular option was 31 January 2017, which is 12 months from the filing deadline – and is of course the date by when Karla could have amended her return. The correct answer is 30 April 2017, which (because the return was filed late) is the quarter day following the first anniversary of the actual filing date.

This was a difficult question, but demonstrates the need to cover the whole syllabus. Even if the specific rules (and quarter days) were not known, some logical thought would have eliminated some, if not all, of the alternatives.

Section B

Question One

This question covered various income tax issues involving a taxpayer.

Part (a) of the question was reasonably well answered, requiring an explanation as to why the taxpayer was treated as resident in the UK for each of the tax years 2013-14 and 2014-15. The details for the two tax years were essentially the same, so only the one explanation was required – something not appreciated by some candidates. Many candidates did not realise that the taxpayer was automatically resident as a result of having her only home in the UK, instead basing their answers on ties to the UK.

Part (b) required a calculation of the taxpayer's payments on account due on 31 January 2015 and 31 July 2015, and the balancing payment due on 31 January 2016. This was well answered, although class 2 national insurance contributions (NICs) and capital gains tax (CGT) were sometimes incorrectly included.

Part (c) was quite well answered. The requirement was to (1) advise the taxpayer of the maximum amount of tax relievably gross personal pension contribution which could be made, and (2) explain why it might be beneficial to restrict the actual contribution to around £35,000 (this figure being the amount of income subject to higher rate tax). Some candidates incorrectly included brought forward pension annual allowances (despite this being excluded due to the taxpayer not previously being a member of a pension scheme), whilst others (for part (2)) discussed the annual allowance charge (despite this obviously not being an issue).

Part (d) required candidates to advise the taxpayer of the maximum further amount which could be invested into a stocks and shares individual savings account and the tax advantages of making such an investment. This was quite well answered, although many candidates explained the advantages of a cash ISA and very few appreciated that with an ISA it is not necessary to declare the income and gains on a tax return.

Question Two

This question was on value added tax (VAT) and was generally well answered.

Part (a) required a calculation of the amount of VAT payable for the quarter. A partly completed VAT computation was provided, so copying this out was the obvious starting point. However, some candidates amended the given figures despite being told that these were correct. It is important to read the question carefully in order to avoid unnecessary complications. The only point which consistently caused problems was the impairment losses, with the impairment loss figure itself being included rather than the VAT thereon.

Part (b) required candidates to state which VAT schemes the taxpayer was currently permitted to use, and then to explain which scheme appeared to be the most beneficial. Provided candidates appreciated that the flat rate scheme was not available, they generally answered this section quite well. This demonstrates the need to relate answers to the information given rather than just writing everything known on a particular subject. The scheme qualifying conditions were not required.

Question Three

This question was on CGT. Part (a) was very well answered, however candidates found part (b) to be more challenging. The taxpayer was the controlling shareholder of an unquoted trading company.

Part (a) required candidates to calculate the company's chargeable gain in respect of the disposal of an office building, and the carried forward base cost of the replacement building. There were many perfect answers to this section.

Part (b) required candidates to calculate the taxpayer's chargeable gain in respect of the disposal of shares in the company (the shares being gifted at an undervaluation with holdover relief claimed), and the recipient's carried forward base cost. Candidates need to be aware of a number of points that arose in this question. Firstly, the diminution in value rules have no relevance to CGT. Secondly, it is necessary to keep careful track of the number of shares where there has been a bonus issue. Thirdly, the excess of actual consideration over cost is an immediate chargeable gain. And finally, the recipient's base cost must be based on the donor's deemed proceeds – not a completely different figure. This highlights why question practice is an essential element of exam preparation.

Question Four

This question was on inheritance tax (IHT), and candidates found this to be a challenging area.

The requirement for part (a) was to calculate the IHT payable as a result of a taxpayer's death, and to state who was responsible for paying the tax. The taxpayer had made (1) a chargeable lifetime transfer (more than seven years before death), (2) a potentially exempt transfer and (3) another chargeable lifetime transfer. A quick review of the information given should have indicated that no lifetime tax would have been paid (this fact was actually stated in respect of the second chargeable lifetime transfer) and that taper relief was not relevant (given that none of the gifts were between four and seven years of death). However, many candidates dedicated a lot of time to establishing this. Candidates should read through the question carefully before they begin their calculations.

Part (b) required an explanation as to why it might have been beneficial if the taxpayer had left a portion of their estate to grandchildren rather than to children. This aspect was well answered, with most candidates appreciating the basic IHT planning of avoiding a double charge to tax.

The IHT planning in part (c) was less well understood. It was necessary to explain why it might be advantageous to make lifetime gifts even when such gifts are made within seven years of death. The main advantage here is that the value of the gift is fixed at the time it is made, so no IHT is payable on the increase in value between making the gift and the time of death. Taper relief may also be available.

Question Five

This was the income tax question. It was well answered, and involved a taxpayer who was employed and also a member of a partnership. The taxpayer also had property and investment income.

For part (a), the requirement was to calculate the taxpayer's income tax liability. No aspect consistently caused problems, although some candidates struggled with the allocation of the partnership's profit. There had been a change in profit sharing ratio during the year.

Part (b) required a calculation of the class 1 and class 1A NICs which would have been suffered by the employer in respect of the taxpayer's earnings and benefits. There were some good answers to this section, although many candidates did not appreciate that for class 1 NIC only the salary and commission payments were relevant.

For part (c), candidates had to state the tax advantages of a rental property qualifying under the furnished holiday letting rules. There were again some good answers to this section, but many candidates were simply not aware of the advantages.

Question Six

This was the corporation tax question, involving a company which had made a loss before taxation for a three-month period.

Part (a) was generally well answered; requiring a calculation of the company's tax adjusted trading loss. Candidates need to appreciate that where a profit adjustment involves a loss, then they must clearly show whether adjustments are added or deducted – in particular, capital allowances which in this case were deducted due to there being an overall balancing charge. Some candidates did not appreciate that where disposal proceeds exceed a pool's brought forward written down value, then there will be a balancing charge.

Part (b) required candidates to (1) state the main factor influencing the choice of a company's loss relief or group relief claims, (2) advise the company as to the maximum amount of trading loss which could be relieved against total profits for previous periods, and (3) advise the company as to the maximum amount of trading loss which could be surrendered as group relief. For (1), a number of candidates gave the rate of corporation tax as the main factor, despite the single 20% rate of tax. For (3), it was often not appreciated that a 75% shareholding is necessary in order for a group relief claim to be possible.