

Examiner's report

F6 (UK) Taxation

June 2017



General comments

The F6 (UK) Taxation exam is offered in both computer-based (CBE) and paper formats. The structure is the same in both formats but our model of delivery for the CBE exam means that candidates do not all receive the same set of questions. In this report, the examining team share their observations from the marking process to highlight strengths and weaknesses in candidates' performance, and to offer constructive advice for future candidates.

- Section A objective test questions – we focus on two specific questions that caused difficulty in this sitting of the exam
- Section B objective test case questions – here we look at the key challenge areas for this section in the exam
- Section C constructed response questions - here we provide commentary around some of the main themes that have affected candidates' performance in this section of the exam, identifying common knowledge gaps and offering guidance on where exam technique could be improved, including in the use of the CBE functionality in answering these questions.

Section A

It was pleasing to see that once again almost all candidates attempted all of the questions. Section A questions aim to provide a broad coverage of the syllabus, and future candidates should aim to revise all areas of the F6 UK syllabus, rather than attempting to question spot. The following two questions are 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.

Sample Questions for Discussion

Here we take a look at two Section A questions which proved to be particularly difficult for candidates.

Example 1

Eminal Ltd purchased 50,000 shares in Vesterama Ltd for £3.50 a share on 6 June 2002 (retail price index (RPI) = 176.2).

On 6 June 2016 (RPI = 263.1), Eminal Ltd sold 15,000 shares in Vesterama Ltd for £70,000.

Eminal Ltd prepares accounts to 31 December each year.

What is Eminal Ltd's chargeable gain or capital loss for the year ended 31 December 2016?

- A £(8,392)
- B £159
- C £0
- D £17,500

This was a straightforward chargeable gain computation on the disposal of shares. The correct answer is C. However, the vast majority of candidates chose option A, suggesting they simply forgot that indexation cannot create a loss.

Example 2

Hamza and Sofia arrived in the United Kingdom (UK) during the tax year 2016–17.

Neither of them had previously been resident in the UK and they did not work in the UK during the tax year 2016–17.

During the tax year 2016–17, they both acquired homes in the UK, and neither of them has any other home.

During the tax year 2016–17, Hamza spent 42 days in the UK and Sofia spent 67 days in the UK.

Which of Hamza and Sofia are resident in the UK for the tax year 2016–17?

- A Both Hamza and Sofia
- B Hamza only
- C Sofia only
- D Neither Hamza nor Sofia

The correct answer is C.

As Hamza spent only 42 days in the UK he meets the automatic overseas test despite having a home in the UK, and no other home. Sofia doesn't meet any of the automatic overseas tests but she is automatically UK resident due to the home test. The vast majority of candidates chose option A.

Section B

Section B tests students' knowledge on a topic in more detail than section A, with three case questions of 5 two-mark objective test questions. The range of topics covered in the June 2017 examination was:

- Capital gains tax (CGT) on gift of shares
- Inheritance tax (IHT)
- Value added tax (VAT)

A few key points that came out of section B were:

- Read the requirement very carefully. This goes for the whole exam, but any objective test question is 'all or'.
- Cover the whole syllabus. The list above should highlight this – F6 (UK) has a large syllabus which can be daunting.
- Be able to apply your knowledge to the scenario given as in the case questions these areas will often be examined in the context of the case. For example, the treatment of a chargeable lifetime transfer where the donor paid the lifetime tax and dies within 7 years, is an area of IHT which is commonly examined. However, most candidates forgot to gross up for the lifetime tax paid, and several forgot to deduct the previous gift from NRB.

Section C

Candidates were presented with questions drawn mainly from the areas of:

- Basic tax planning focussed on reducing or postponing tax liabilities
- Computation of an individual's taxable income
- Pension annual allowances
- Computation of taxable total profits for a company
- Acquisition of a 51% group company

Basic tax planning

Where a question is just for two or three marks, candidates should realise that long, detailed, computations or written answers are not expected.

Questions of this nature often require candidates to work at the margin. It is much easier (and quicker) to work out, for example, that the tax reduction if a higher rate taxpayer's income falls by £5,000 is £5,000 at 40% = £2,000, rather than producing full before and after tax computations.

If a tax figure is given as part of a question, then candidates gain nothing by then calculating this figure for themselves.

A suggested tax planning strategy might not necessarily be effective, and candidates need to have the courage to base their answer on this conclusion if led there based on the application of basic principles. In such situations, too many candidates want to answer the question that they wish had been set, rather than the one that has been set.

Computation of an individual's taxable income

With this type 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. Workings should always have a heading or be obviously identifiable, rather than just (for example) be referenced to the bullet list numbers from the question. The use of abbreviated numbers such as 8.35k instead of 8,350 should be avoided.

Where a computation contains additions and deductions, candidates should be very careful to indicate which is which. A single column approach with deductions shown in brackets avoids any confusion. Any items which do not require adjustment or where the entry is nil, should always be shown by the use of a zero. And if a result is obvious, such as a nil personal allowance due to a very high level of income, all that is needed is a zero entry – there is no need for an explanation or a calculation of the reduction to nil.

Candidates need to appreciate that each source of income is self-contained. It is not correct to show all the receipts from each source first (such as rent receivable), and then all the various expenses lumped together (such as property income deductions). For example, there should be a working for property income, with the one figure then included in the main income tax computation.

Pension annual allowances

When calculating the amount of unused annual allowances, candidates should appreciate that they might need to take account of various factors such as:

- The tapering of the annual allowance to a minimum of £10,000 where income exceeds £210,000.
- The three-year restriction for the carry forward of unused allowances.
- The fact that an employer's pension contributions utilise the annual allowance.

If a separate section of a question, then the marks available should be a good indication as to the complexity of a requirement.

Computation of taxable total profits for a company

Again, with this type of question, candidates need to think carefully about where to show workings. In particular, candidates should not attempt to take short-cut approaches when it comes to capital allowance and share pool workings.

It is important that candidates appreciate basic tax rules. For example, even though all of the items included in a capital allowances pool may have been sold, there will be no balancing allowance unless a business has ceased trading.

Candidates need to be very careful regarding dates. For example, if a share pool involves a prior disposal (which may be several years before the current period), then that disposal obviously should not be included as part of the gain for the current period.

Acquisition of a 51% group company

Another example of where too many candidates wanted to answer the question that they wish had been set (discussing 75% groups), rather than the one set.

If a single 51% subsidiary is acquired, then the profit threshold for establishing large company status will be reduced to £750,000 ($1,500,000/2$). Corporation tax might then be payable by quarterly instalments. There is no need to go on and explain in detail quarterly instalments – the requirement would make this clear if this was required.

Generally not appreciated was that dividends received from the 51% subsidiary will not form part of a holding company's profits.

Exam technique

Good exam technique is vital for success in F6 (UK). Written sections at F6 (UK) tend to be relatively short, but it is good practice to make each point in a separate paragraph - not only does this make it easier to mark a point,

it makes it easier for a candidate to review their answer and ensure they have covered each of the relevant areas. It should also prevent the same point being made more than once.

For the numeric side of the exam, candidates need to focus on a well-structured layout with appropriate workings. It should be easy for a marker to see how a figure from a working fits into the main computation.

Candidates should note that it is a waste of time showing detailed, well laid out, workings for the OT questions. Although not strictly necessary, it is good practice to either cross out workings for the OT questions or to clearly mark what the workings refer to.

Where the requirement is for a computation, then there is generally no need for detailed explanations. For example, if selecting which employment bonuses need be included in the current tax year, simply show those included and indicate (by the use of a zero) those not included. There is no need to explain the principle involved. Although sample exam answers include tutorial notes, these are just to help you understand an answer – you are not expected to replicate them in the exam.

Word processing and spreadsheet technique

Candidates used the CBE software well.

However, for the spreadsheet software, there is some evidence of candidates calculating their answers on their calculators and typing them into the spreadsheet cells. The spreadsheet has the functionality to calculate numbers for you, which makes it clearer to your marker what you've done. It also utilises copy and paste functionality alongside simple formulae which can be time saving in the exam.

There are resources on ACCA's website giving more guidance on how to use the spreadsheet software. A video introducing the main functionality and how to make best use of these in F6 (UK) can be accessed [here](#).

Guidance and Learning Support resources to help you succeed in your exam

Preparing for the F6 (UK) exam may appear daunting but there are many resources available to help you. You should refer to these throughout your studies.

You should make sure you have made use of all of the resources found under [technical articles](#) for F6 (UK), especially whichever Finance Act article is relevant to your exam sitting. You will also find other technical articles, study support videos and exam technique resources – all developed with you in mind.

Reading the article on higher skills found [here](#) will be good preparation for questions covering more than one syllabus area or more than one tax. The article includes a long worked example calculating tax liabilities on a self-employed basis, and then considering three alternative approaches to extracting profits from a limited company.

It is essential to practise as many exam standard questions as you can in the lead up to your exam. We strongly recommend that you use an up to date question and answer bank from one of our [Approved Content Providers](#) but if this is not possible then work through the most recent past exams on our website. However, please note if you are using the past exams that these are **not** updated for syllabus changes or changes to the exam format and



so should be used with caution. This is warning is especially relevant for taxation given the extensive changes from one tax year to the next – so check the latest [syllabus and study guide](#) for changes.