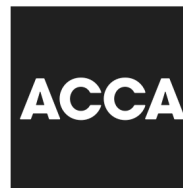


# Examiner's report

F6 (UK) Taxation  
September 2016



## General Comments

There were three sections to the examination paper and all of the questions were compulsory. Section A consisted of 15 objective test 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 objective test 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

Section A questions aim to provide a broad coverage of the syllabus, and future candidates should aim to revise all of the 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 for discussion

**Which of the following statements concerning self-assessment tax returns for individuals is true?**

- A Individuals with tax payable of less than £1,000 for a tax year are not required to file a tax return
- B Individuals are only required to file a tax return for a tax year if they receive a notice to deliver from HM Revenue and Customs (HMRC)
- C All individuals who submit a tax return on time are able to have their tax payable calculated by HM Revenue and Customs (HMRC)
- D The tax return for an individual covers income tax, class 1, class 2 and class 4 national insurance contributions and capital gains tax liabilities

This question tested candidates' knowledge of various aspects of the income tax self-assessment system. The majority of candidates appreciated that there can be a requirement to file a tax return despite not receiving a notice to do so from HMRC. However, a significant number of candidates chose option D, despite class 1 national insurance contributions (NIC) not being part of the self-assessment system. Many candidates chose option A, not remembering that the de minimis limit of £1,000 instead relates to payments on account. All individuals who submit a tax return on time (either a paper return or electronically) are able to have the tax payable calculated by HMRC therefore option C was the correct answer.

This should have been a fairly straightforward question and it demonstrates the need to carefully read and consider each alternative – not just quickly jump to the first one that seems to fit.

## Section B

### Questions 16-20

This case question covered inheritance tax (IHT). The taxpayer had died, having made a chargeable lifetime transfer (CLT) within seven years of death. The nil rate band of the taxpayer's deceased spouse was not fully used.

The first two questions (involving the available nil rate band and the amount of deductions permitted in calculating the taxpayer's chargeable estate) were well answered.

One of the questions asked who was responsible for paying the IHT liability in respect of the taxpayer's chargeable estate, and also the due date. The due date was not a problem, but many candidates opted for the beneficiaries of the taxpayer's estate as responsible rather than the personal representatives of the estate.

A further question asked for how much of the IHT payable in respect of taxpayer's estate would have been saved if specific gifts had been made to a trust and to the taxpayer's grandchildren (instead of the entire estate being left to the taxpayer's children). Although most candidates chose the correct answer (that there was no tax saving), a significant number opted for either of the gifts resulting in an IHT saving at 40%.

There was also a question that asked for how much IHT was saved as a result of the taxpayer making a CLT rather than retaining the gifted assets until death. Again, the correct answer (based on the value at death less the amount of lifetime IHT paid) was most popular, but a significant number of candidates instead based their answer on the initial value of the CLT.

These three, less well answered questions, demonstrate the need for a good grasp of how a tax such as IHT is applied, rather than just rote learning the basic mechanics of tax calculation. These questions show how tax planning can feature within a case question.

### **Questions 21-25**

This case question covered capital gains tax (CGT). The taxpayer was the controlling shareholder in an unquoted trading company, with both the taxpayer and the company making disposals of assets.

Questions involving the indexation allowance, the crystallisation date for a heldover gain and the base cost of shares following a rights issue were well answered.

One of the questions asked for the base cost of an asset against which a rollover relief claim had been made. Although the correct answer was the most popular (with candidates appreciating that the amount of proceeds not reinvested could not be rolled over), a significant number of candidates ignored the amount of proceeds not reinvested and rolled over the full amount of gain.

Another question asked for the taxpayer's CGT liability. Again, the correct answer (the disposal qualifying for entrepreneurs' relief utilised the available basic rate tax band, with the other gain therefore taxed at 28%) was marginally the most popular. However, many candidates ignored the impact of entrepreneurs' relief on the basic rate band or did not deduct the annual exempt amount.

These two less well answered questions demonstrate the need to be very careful with all aspects of a calculation. One simple mistake means the loss of the two marks available.

### **Questions 26-30**

This case question covered value added tax (VAT). The taxpayer had commenced trading and had registered for VAT.

Generally, this case question was not as well answered as the previous two. However, candidates made reasonable attempts at questions on the recovery of pre-registration input VAT, how and by when the VAT liability would be paid and the information included on a valid VAT invoice.

A further question asked for the date of compulsory VAT registration. Although the correct answer was the most popular, many candidates opted for the end of the month in which the registration limit was exceeded.

One of the questions asked for the maximum amount of input VAT which could be reclaimed in respect of motor expenses. The correct answer (ignoring private use) was by a long way the most popular, but a significant number of candidates either adjusted for private use or used the fuel scale charge instead of the actual fuel figure.

### **Section C**

#### **Question 31**

This question required a calculation of the overall tax and national insurance contributions (NIC) saving if, instead of withdrawing the entire profits of a company as director's remuneration, director's remuneration was restricted to £8,000 with the balance of available profits then taken as dividends. The employer's class 1 NIC figure was given.

Although there were many good attempts at this question, various aspects consistently caused problems.

- It was often not clear as to which section of the scenario was being answered, particularly as regards the corporation tax calculations.
- The majority of candidates did not appreciate that where all of a company's profits are paid out as director's remuneration (and the related employer's class 1 NIC) then there is not any corporation liability.
- Similarly, it was not appreciated that with director's remuneration of just £8,000 (which is below the NIC lower thresholds) then there was no NICs.
- Many candidates incorrectly calculated NICs on the dividends.

#### **Question 32**

This was the income tax question. It was well answered, and involved a taxpayer who was employed and had also commenced self-employment during the tax year (making a trading loss).

For part (a), the requirement was to state two advantages of the taxpayer choosing 5 April as an accounting date rather than a date early in the tax year such as 30 April. There were three obvious advantages, and many candidates correctly explained that the application of the basis period rules is more straightforward and that there will be no overlap profits. Less well prepared candidates instead covered the advantages of a 30 April accounting date, so not surprisingly did not achieve high marks.

Part (b) required a calculation of the taxpayer's revised tax adjusted trading loss for the first period of account. This meant adjusting for pre-trading expenditure, use of one of the five rooms in the taxpayer's private house as an office, and capital allowances. There were many good answers to this section, although a common mistake was to not appreciate that each of the three adjustments increased (not decreased) the trading loss.

For part (c), candidates had to explain why it was not beneficial for the taxpayer to claim loss relief under the provisions giving relief to a loss incurred in the early years of trade. It should have been fairly obvious that such a claim would have wasted the personal allowance and not resulted in any tax saving. This section was not as well answered, with many candidates not appreciating that the loss could only be carried back for three years. Some candidates actually explained why a claim would be beneficial.

Part (d) required a calculation of the taxpayer's taxable income (on the basis that loss relief was claimed against total income). This meant taking account of two subscriptions (only one of which was deductible), a mileage allowance deduction for the use of a private motor car for business purposes, and pension contributions (both to an occupational scheme and a personal pension scheme). This section was generally well answered, although many candidates wasted time by calculating the tax liability. The occupational pension scheme contribution was often grossed up (such contributions are not paid net of tax). Many candidates made things more difficult than they needed to be by attempting this section before section (b).

### **Question 33**

This was the corporation tax question, involving two unrelated companies. The first company had ceased trading, preparing accounts for a final four-month period. The second company had commenced trading, preparing accounts for an initial six-month period.

Part (a) was generally very well answered, requiring a calculation of the first company's taxable total profits for the final period of trading. This involved calculating the balancing charge on cessation (all of the items included in the company's main pool being sold), the chargeable gain on the sale of the company's freehold office building and the property business income in respect of one floor of the office building which had been let out. The company has also made qualifying charitable donations. The only consistent problem here was the capital allowances, with many candidates not appreciating that neither the annual investment allowance (a laptop computer had been purchased during the period) nor writing down allowances are given in the period of cessation. A few candidates ignored the cessation altogether and therefore did not calculate a balancing charge.

Part (b) was also well answered on the whole, requiring a calculation of the second company's tax adjusted trading profit for the initial period of trading. This involved adjusting for depreciation and amortisation, calculating the deduction in respect of a lease premium, calculating capital allowances for two motor cars (one car was used as a pool car by the company's employees, with the other having private use by a director) and deducting loan interest in respect of a loan made to the company by a director/owner. Some candidates attempted to calculate benefits in respect of the motor cars and loan which, although correct as regards the motor cars, had no relevance to the requirement. Perhaps not surprisingly, the deduction for the lease premium caused quite a few problems.