



# Examiner's report

## F6 Taxation (UK)

### September 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

Little Fence Ltd has made up accounts for the 15 month period ended 31 March 2017.

**By which date(s) must Little Fence Ltd file its corporation tax self-assessment tax return(s) for the 15 month period ended 31 March 2017?**

- A** The return for the year ended 31 December 2016 must be filed by 31 October 2017. The return for the period ended 31 March 2017 must be filed by 31 December 2017.
- B** One return for the 15 month period ended 31 March 2017 must be filed by 31 March 2018.
- C** The return for the year ended 31 December 2016 must be filed by 31 December 2017. The return for the period ended 31 March 2017 must be filed by 31 March 2018.
- D** The returns for the year ended 31 December 2016 and the period ended 31 March 2017 must both be filed by 31 March 2018.

This was a straightforward question on filing dates for corporation tax for a long period. The correct answer is D. Two tax returns are required, one for the year ended 31 December 2016 and one for the period ended 31 March 2017, however both of them have the same filing date and must be filed by 31 March 2018. Most candidates selected option C, for each return being filed 12 months after the period end, and others selected option A, using the payment dates rather than filing dates.

#### Example 2

Dayfis Ltd was incorporated on 1 October 2016. The company started to trade on 1 December 2016 and made up its first accounts for the period to 30 June 2017.

**By which date must Dayfis Ltd notify HM Revenue and Customs (HMRC) of its first accounting period?**

- A 1 December 2016
- B 1 January 2017
- C 1 March 2017
- D 30 June 2018

This was another tax administration question on the date which a company must notify HMRC of its first accounting period. A company must notify HMRC of the beginning of its first accounting period within three months. The company was incorporated on 1 October 2016 but did not start to trade until 1 December 2016, and it is the date the company started to trade that is relevant here, so the correct answer is C, 1 March 2017. Most candidates chose B, being three months after the company was incorporated, with the next most popular answer being A, the date that the company started to trade (or two months after the company was incorporated). Answer D, being 12 months after the first accounts for the period to 30 June 2017, was also selected by more candidates than the correct answer C.

Tax administration is an important area of the syllabus, so future candidates should ensure they cover this area in their preparation.

### **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. There were a range of topics covered in the September 2017 examination, and performance was good on all of the areas tested.

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 nothing'. Some candidates missed the pro-rating of a car that was only available for 2 months, which then affected their calculations.

- Cover the whole syllabus. F6 (UK) has a large syllabus which can be daunting. Overall candidates performed well in these questions in September so they appear to have covered the syllabus well, and future candidates should also do so.

### **Section C**

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

- Extraction of profits from a company by way of salary compared with dividends
- An individual's residence status
- Computation of an individual's taxable income
- Computation of a company's trading loss
- Computation of taxable total profits for a company
- Corporate loss relief and group relief

#### **Extraction of profits**

Where tax and national insurance contributions (NICs) figures are given for the original scenario, then candidates should never attempt to recalculate these figures for themselves. All this does is waste valuable time.

It is important that candidates appreciate the interactions involved in this type of question, and this is why a higher skills article has been published covering many of the scenarios which could be examined. For example, director's remuneration reduces a company's taxable total profits, but the payment of dividends does not. Candidates should especially note that dividends are not subject to NICs.

Where there are several computations forming part of the same question, then candidates are advised to use appropriate headings to indicate which aspect is being answered.

If tax computations are relatively straightforward, then there is no need for detailed layouts – for example, separate columns for director's remuneration and dividends. The same goes for NIC computations where the 2% rate is not applicable.

#### **Residence status**

If it is obvious that a person is not automatically resident or not resident, then nothing will be gained by a detailed explanation of these tests.

When discussing UK ties, candidates should focus on those ties which are met rather than those which are not.

Where a written question is just for three marks, then this should be a clear indication that a long, detailed, explanation is not required.

### **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 1.18k instead of 1,180 should be avoided as this can lead to mistakes.

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, unless the requirement specifically asks for one. The same goes for exempt benefits, non-deductible expenses and exempt income.

### **Computation of a company's trading loss**

Again, where a computation contains additions and deductions, candidates should be very careful to indicate which is which – particularly when working with a loss figure. A single column approach with deductions shown in brackets avoids any confusion.

When dealing with an adjustment style question, candidates should always follow the guidance given - *commence with the appropriate loss figure, and list ALL of the items referred to in the relevant notes indicating by the use of zero (0) any items which do not require adjustment.*

Candidates should also appreciate that there is no need to adjust for items of income which occur in the statement of profit or loss AFTER the figure used to commence the loss adjustment.

Candidates should make sure that they understand the implications of the information which is given to them. If a company has ceased trading, then with capital allowances there will simply be a balancing adjustment. A detailed computation will almost certainly not be necessary.

### **Computation of taxable total profits for a company**

Candidates should be careful of not making basic mistakes such as deducting the annual exempt amount when calculating a corporate chargeable gain.

The requirements should always be followed, so, for example, the amount of unused trading loss should be shown if that is what is requested.

### **Corporate loss relief and group relief**

Again, candidates should appreciate the implications of the information given. If a company has ceased trading, then a trading loss cannot be carried forward.

Vague answers such as ‘claim terminal loss relief’ are not sufficient. Instead, candidates should have mentioned that relief is:

- Against total profits
- For the previous three years
- Latest year first

### **Exam technique**

Good exam technique is vital for success in F6. Written sections at F6 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 valuable time could be lost showing detailed, well laid out, workings for the OT questions. Workings are necessary to ensure you get the correct answer, but they do not need to be detailed in the same way as your workings for section C questions, where your workings form part of your answer. 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, so that your marker knows which section they relate to.

As already mentioned, where the requirement is for a computation, then there is generally no need for detailed workings. 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, unless the requirement specifically asks you to. 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**

There were generally no issues with the use of the CBE software.

Note that 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 can be accessed [here](#).

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

Preparing for the F6 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, 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, legislative changes or changes to the exam format and so should be used with caution. This 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.