

Examiner's report

F6 (UK) Taxation
March 2016



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 F6 (UK) are advised to work through the specimen paper, past exam questions and the 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 F6 (UK) 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

Phillip did not file his self-assessment tax return for the tax year 2014-15 until 31 March 2016.

What is the latest date that HM Revenue and Customs (HMRC) can begin a compliance check enquiry into Phillip's 2014-15 tax return?

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

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. This option was chosen by many candidates. The most popular option was 31 January 2017, which is 12 months from the deadline for filing – and is of course the date by when Phillip could have amended his 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 fairly challenging question, but should demonstrate to candidates the need to cover the whole syllabus during their studies, including administration. Even if the specific rules (and quarter days) were not known, some logical thought should have eliminated some, if not all, of the alternatives.

Section B

Question One

This question was on inheritance tax, and it involved a taxpayer who was concerned about the amount of inheritance tax which would become payable on their death.

Part (a) of the question was well answered, requiring a calculation of the inheritance tax which would be payable if the taxpayer were to die. The only consistent mistake was to calculate the nil rate band available in respect of a deceased spouse based on the nil rate band amount when the first spouse died rather than the current nil rate band amount.

Part (b) required (1) a calculation of the amount of inheritance tax which would be saved if the taxpayer made a cash gift to an individual (a potentially exempt transfer) and then did not die for just over five years, and (2) an explanation as to whether making the lifetime gift would or would not result in inheritance tax being payable earlier. The main problem that candidates encountered here was often not appreciating that the same nil rate band would be used as calculated in part (a). As regards the date of payment, very few candidates appreciated that the due date for the potentially exempt transfer and for the death estate were essentially the same, being six months from the end of the month of death. Discussions of irrelevant due dates for chargeable lifetime transfers did not score any marks.

Question Two

This question was on VAT and was generally not satisfactorily answered. It involved a company and its 100% subsidiary.

Part (a) required (1) the maximum amount of penalty which could be charged by HM Revenue and Customs as a result of underpayments of VAT due to careless behaviour, and the reduction for an unprompted disclosure, and (2) the circumstances in which default interest would be charged in respect of the VAT underpayments. The only aspect which was well answered was the reduction for unprompted disclosure, but otherwise it was often a case of candidates writing at length about default surcharges only to find that this information was actually relevant to the next requirement.

Part (b) required the default surcharge implications of the late submission of VAT returns and payment of the related VAT liabilities. This was reasonably well answered, although answers were often far longer than necessary for the available marks.

Part (c) required an explanation of the advantages of registering as a group for VAT purposes. Although there were a number of satisfactory answers to this section, answers often strayed from VAT into discussing corporation tax aspects of groups, which was not relevant to the requirement set.

Question Three

This question was generally well answered and involved the employment status of a taxpayer who had accepted a one-year contract with a company.

Part (a) required four factors which were indicators of the taxpayer being treated as an employee in relation to their contract rather than as self-employed. Most candidates missed the fact that the taxpayer would not incur any significant expenses in respect of the contract and would not be

taking any significant financial risk. Many candidates incorrectly gave the payment of tax under PAYE for the previous year as an indicator.

Part (b) required a calculation of the taxpayer's income tax liability and national insurance contributions if they were treated as self-employed in respect of the one-year contract. This was well answered, but many candidates produced extremely long answers for what should have been a simple set of workings. For example, the capital allowance was simply a 100% annual investment allowance on the purchase of a new asset and did not require a detailed capital allowances computation.

Part (c) required (1) an explanation why the taxpayer's income tax liability would be payable earlier if they were treated as being an employee instead of self-employed, and (2) a calculation of the additional amount of national insurance contributions which would be suffered. As regards the payment aspect, most candidates just referred to PAYE without any further relevant detail. Very few appreciated that the due date under the self-employed basis was simply 31 January following the tax year - payments on account not being required because the previous year's tax liability was collected under PAYE.

Question Four

This question was on capital gains tax, and was generally very well answered. A taxpayer had made various gifts to family members during the tax year. These were (1) a no gain or loss gift of a house to their spouse, (2) a gift of shares in an unquoted trading company which qualified for gift relief, (3) the gift of a non-wasting chattel, and (4) a part disposal of land.

Part (a) required a calculation of the taxpayer's chargeable gains for the tax year. The only aspect which consistently caused problems was the gift relief, with relief being restricted to the proportion of the company's chargeable business assets to chargeable assets.

Part (b) required the base cost taken over by each recipient. Although relatively straightforward, this requirement often resulted in detailed, incorrect, workings. The gift to the spouse caused particular problems, with the base cost being the value at the time it was inherited by the taxpayer – not the value at the time of the gift.

Question Five

This was the corporation tax question, involving a company which had commenced trading and then prepared financial statements for a three-month period and two subsequent years. The question was fairly well answered, although far too many candidates wasted time on workings which were much longer than necessary. For example, the main corporation tax computations should have used a three-column approach (one for each period), and it was not necessary to repeat headings for each period's capital allowance workings. Also, an efficient layout would have avoided separate workings for the corporation tax liabilities.

Part (a) required a calculation of the company's corporation tax liabilities for each of the first three periods of trading. Apart from the issues already mentioned, the main problem here was the property business income. Candidates often did not appreciate that the lease premium was only taxable for the year of receipt, and the allocation of income and expenses across periods also caused difficulty.

Part (b) required an explanation as to whether or not the company's United Kingdom residence status would alter if the company's directors moved overseas and then held the company's board meetings overseas. Given that the company was incorporated in the United Kingdom, the answer was no, but many candidates did not appreciate this point.

Question Six

This was the income tax question. It was well answered, and involved a taxpayer who had retired during the tax year, ceasing both employment and self-employment. The requirement was to calculate the income tax and capital gains tax liabilities for the tax year.

Two aspects to this question caused particular difficulty. Firstly, many candidates treated the pension income (state pension, employer's occupational pension scheme and a private pension) as exempt income. Secondly, the format in which information was given for two properties caused a certain amount of confusion, with the information relevant for income tax and the capital gains tax details being shown within the one table; candidates being required to separate out the relevant information for income tax and capital gains tax purposes. Here figures were often duplicated, with, for example, revenue expenditure being (correctly) deducted as an expense in calculating the property business profit, but then also (incorrectly) deducted in calculating chargeable gains.