

Examiner's report

P6 Advanced Taxation (UK)

September 2017

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

General Comments

The exam was in its standard format; section A consisting of the compulsory questions 1 and 2, worth 35 marks and 25 marks respectively, and section B where candidates were required to answer two out of the three questions worth 20 marks each.

In general terms, those candidates who did not perform well were weak in the following areas.

- They did not spend sufficient time carefully reading the question and thinking before they started writing. This meant that they produced an unstructured answer which did not include sufficient relevant points and/or they wasted time providing information that had not been asked for. This appeared to be a particular issue in a number of question parts on this paper, as the detailed comments below explain.
- They did not have sufficient, precise knowledge of the tax rules within the syllabus. This was true in respect of both areas which are not part of the F6 syllabus and also some of the more fundamental rules contained in the F6 syllabus.
- Their time management was poor. There were a significant number of candidates who produced very comprehensive answers to two or three questions, perhaps scoring a good pass on these, but then appeared to run out of time without being able to have a reasonable attempt at their fourth question.

Candidates should pay particular attention to the following in order to maximise their chances of success in the exam in the future.

1. Know your stuff
 - Successful candidates are able to demonstrate sufficient, precise knowledge of the UK tax system.
 - This includes knowledge brought forward from the F6 syllabus.
2. Practise questions from past exams with the aim of adopting the style of the model answers, and learning how to spot 'triggers' in the question, which are there to point you towards the required answer. In particular this applies to the longer, scenario-based Section A questions.
3. Address the requirement
 - Read the requirement carefully – in the Section A questions the detailed tasks that you are to perform will be set out in one of the documents. It may be helpful to tick off the tasks as you address them. Marks are awarded only for satisfying the requirements and not for other information even if it is technically correct.
 - The requirements of each question are carefully worded in order to provide you with guidance as regards the style and content of your answers. You should note the command words (calculate, explain, advise etc). Requirements to 'explain' or 'advise' require a written element to the answer, perhaps accompanied by supporting calculations, but calculations alone will not suffice. Candidates should also pay attention to any matters which are not to be covered, as inclusion of these will not gain marks
 - Pay attention to the number of marks available – this provides you with a clear indication of the amount of time you should spend on each question part.
4. Don't provide general explanations or long introductions.
 - You should avoid just writing out parts of the question, which candidates sometimes appear to use to 'set the scene', but is not an efficient use of time.

- If you are asked to calculate, there is no need to explain what you are going to do before you do it; just get on with it – only provide explanations when you are asked to.
 - Think before you write. Then write whatever is necessary to satisfy the requirement.
 - Apply your knowledge to the facts by reference to the requirement.
5. Think before you start and manage your time
- Ensure that you allow the correct amount of time for each question.
 - Before you start writing, think about the issues and identify all of the points you intend to address and/or any strategy you intend to adopt to satisfy the requirement.

If you are preparing to resit the exam, think about the number of additional marks you need and identify a strategy to earn them. For example:

- Identify those areas of the syllabus where you are weakest and work to improve your knowledge in those areas. This should include any technical areas brought forward from F6 where necessary.
- Practise past exam questions in order to familiarise yourself with the style of questions that you will have to deal with. This is a vital part of your preparation for the exam.
- Ask yourself whether you could improve the way you manage your time in the exam and whether you address all of the parts of all four questions or whether you waste time addressing issues which have not been asked for.
- Make sure that you earn the professional skills marks and that you are prepared to address the ethical issues that may be examined.

Those candidates finding themselves scoring in the 40's should ensure that they read the various non-technical articles aimed at improving performance in the P6 (UK) exam, which are on the website.

Marks available in respect of professional skills

Marks were available for professional skills in question 1. In this case candidates were required to provide notes for a meeting with a client. Candidate should keep two things at the back of their minds while addressing this type of requirement: Firstly, that the notes must be structured in such a way that they could be used as intended, in a meeting with the client. Secondly, the level of tax expertise of the client who will attend the meeting. Explanations contained in the notes must be concise, but comprehensive enough to be understandable to the client. Candidates who scored well, structured their answer according to the matters to be addressed, made good use of appropriate subheadings, and wrote concisely in short, clear paragraphs.

Specific Comments

Question 1

This question concerned a variety of corporation tax issues facing different members of a group of companies. It was quite a challenging question, but some good answers were provided by candidates who read the question carefully, and followed the detailed guidance. The use of subheadings, taken from the issues in the manager's email, provides a useful structure in this type of question, which all candidates should consider adopting.

The first part of the question, which was worth 12 marks, related to the sale of shares in one of the group companies. For 12 marks, a candidate should expect to have to identify several different issues, and in this case, the examiner indicated that there were three or four issues to be considered here. Many candidates managed to identify one or two, but relatively few were able to produce a comprehensive answer to this part. Candidates who had practised past exam questions in this subject area would have been able to identify and discuss the key issues of substantial shareholding exemption, degrouping charge, and withdrawal of the stamp duty land tax exemption, and consequently scored well. These are key elements of knowledge at P6 and are tested frequently in a variety of different ways.

The second part of the question concerned group relief available for the trading loss of one of the group companies. It was pleasing to see that many candidates were able to accurately define a group for group relief purposes, and to apply this to the group in the scenario. The question required candidates to state the maximum loss which could be surrendered to each of the group companies. However, a significant number of candidates appeared to misread this, and introduced a planning element, discussing in some detail, the optimum relief available to the group, taking into consideration whether or not each company would pay corporation tax in instalments. Candidates are strongly advised to spend a little time reading the detail of the requirements very carefully, to ensure that they focus their efforts in the right direction. Time spent in this way should help to ensure that candidates focus their answer on what is required, and do not go off at a tangent, providing irrelevant information or computations, which waste time.

The third part of the question related to the availability of rollover relief within the group, and, again, it was pleasing that most candidates were able to correctly define a group for this purpose and apply this to the group in the scenario. However, knowledge of the assets which qualify for rollover relief was rather more vague, with many candidates failing to recognise that a share disposal does not qualify. Whereas many candidates were aware that the gain eligible to be rolled over might be restricted, very few could accurately explain the restriction. Candidates sitting P6 will frequently be tested on the capital gains reliefs available for both companies and individuals, and would be well advised to ensure that they spend some time learning the details of these.

The final part of the question concerned VAT implications of using the annual accounting scheme and of incurring expenditure on promotional activities. The majority of candidates were familiar with the terms of the annual accounting scheme. However many answers relating to the expenditure on entertainment, gifts and samples, related to the corporation tax implications of these not being allowable, with no reference at all to VAT. Although some candidates did appreciate the VAT implications with regard to input VAT on each of these, very few identified the correct output VAT implications.

Overall, candidates who prepared satisfactory answers to question 1:

- clearly addressed each of the three issues set out in the manager's email
- read the requirements very carefully and followed the guidance provided
- did not waste time including irrelevant material
- produced clearly laid out and labelled computations

Question 2

This question concerned various income tax and capital gains tax issues for an individual, inheritance tax (IHT) planning relating to a charitable gift, and ethical issues relating to accepting a new client who is related to existing clients.

The first part of the question concerned income tax and capital gains tax issues for an individual and was not well done.

Extraction of profits by an individual from a company is another frequently tested topic. Candidates essentially had to compare the tax implications, for both the individual and the company, of two alternative ways of extracting profits from the company. An appropriate first step in such a question is to determine the current income tax position of the individual in terms of their marginal rate of tax, to ascertain whether a marginal approach can be taken. Despite the fact that this approach has been used in several past exam questions, very few candidates adopted this approach here, which was very surprising. The majority of candidates wasted a considerable amount of time calculating the individual's total income tax liability under both options, involving lengthy, detailed computations. Although, on occasion, detailed computations may be needed, candidates would be advised to ensure that they are able to identify when a marginal approach is appropriate, and able to calculate the relevant tax liabilities using this method.

The decision of whether or not it is beneficial to reimburse fuel provided by the company for private travel in a company car, is a very practical one. Taxable benefits are covered in depth at F6, and candidates should expect to see further testing of this knowledge at P6, albeit in more practical scenarios. Many candidates produced very muddled answers here, in particular confusing application of the fuel benefit, which is relevant where the individual has a company car, with the tax-free statutory mileage allowance, which is used where an individual uses their own car for business journeys. Although this technical knowledge is not new at P6, candidates should ensure they have practised past P6 exam questions so they are familiar with the P6 exam approach.

Finally in this first part candidates had to advise on the availability of gift relief, and calculate the number of shares to be gifted, using gift relief, to obtain the maximum tax saving for the couple in question. Once again, many candidates' knowledge of this capital gains tax relief was rather vague and many barely attempted the planning point. As noted in relation to question 1 above, candidates need to be familiar with the conditions for, and implications of, capital gains tax reliefs such as this.

The second part of the question related to the different implications for inheritance tax of an individual making a charitable gift now, or leaving the same amount to the charity in their will. The majority of candidates were able to identify that a key point here was the availability of the reduced rate of inheritance tax available in a situation where the donation is made via the will and it represents at least 10% of the chargeable estate. However, apart from this, answers were very mixed, with the better answers clearly explaining and calculating the inheritance tax in both scenarios, while a common issue among weaker answers was a failure to provide any explanations, or even to label the computations – whether it related to the lifetime gift, or donation via the will – which caused unnecessary confusion and inevitably restricted the marks available. Candidates must clearly label their computations, and should take note of how this is done in model answers to past exam questions.

The final part of the question concerned ethical issues in relation to acting for a new client and answers were somewhat disappointing. In particular, a reference to ‘sophisticated tax planning’ required by the client (to elicit discussion of whether the firm had the necessary expertise), appeared to be regarded by a good number of candidates as alluding to possible tax evasion, and this was followed by a discussion of evasion, money laundering etc, a topic which the candidates had no doubt revised, but candidates should generally take the information provided in a question at face value, unless there is a clear indication that for some reason it is not to be relied upon.

Question 3

This question concerned aspects of corporation tax and income tax for an employee.

The first part related to the tax relief for research and development expenditure in a ‘large’ company. Most candidates were comfortable with the calculation of this, scoring full, or almost full, marks. However, many ignored the requirement to ‘explain’ the relief, and so were not able to pick up the marks for this. Candidates should ensure that they fully address all aspects of the requirements.

The second part of the question required explanation of the corporation tax return filing dates in relation to a long period of account.

Surprisingly, this was not done at all well. Most candidates recognised that the long period would be split into two accounting periods for tax purposes, but fewer were able to state the correct split of the long period. Fewer still correctly identified the filing dates, with the most common error being to state the payment dates instead.

The implications for a company in respect of late filing of returns elicited a number of answers stating that ‘penalties will arise’, or ‘interest will be charged’, but candidates must be precise as to the nature and amounts of such penalties/interest in order to gain marks in this type of question.

The final part of the question concerned the acquisition of shares by an employee, either by means of a transfer, or by exercising options in an enterprise management incentive (EMI). Although few candidates scored high marks on this question part, a good number achieved a respectable score. It appeared that many candidates ignored the last part of the requirement to calculate the taxpayer’s increase in wealth under each of the alternatives, which was a shame as this should have represented relatively easy marks. It is similar to the, perhaps more familiar, requirement to calculate ‘after-tax proceeds’ from a transaction. In these cases, follow through marks are available as long as the candidate picks up the correct figures from their earlier calculations. The message, again, is to read the requirements of a question very carefully to ensure that what should be relatively easier marks, marks like these, are not overlooked.

Question 4

This question concerned an unincorporated business which was about to change its accounting date, and which was anticipating a trading loss in a future period.

The first part concerned the tax implications of a change of accounting date for an unincorporated business. Unfortunately, relatively few candidates appeared to be aware of the assessment rules

on a change of accounting date, so this part was not done well. However, many candidates were able to identify and explain a disadvantage of choosing an accounting date which fell later in the tax year.

The second part of this question required a calculation of the loss available to the trader, and their spouse, on the basis that firstly, the spouse became an employee of the business, or, secondly, the spouse became a partner in the business. In general this was done well. Candidates were then required to go on and advise both taxpayers as to the reliefs available for their losses. The rules relating to trading losses are frequently examined, and while many candidates scored reasonably here, more precise answers would have scored higher marks. Candidates would do well to invest time at the revision stage of their studies to memorising the rules concerning relief for trading losses, and ensuring that they are able to recognise those rules which apply in a given scenario. In particular, they should be able to identify those which apply in certain situations only, such as the opening years of a business, which was applicable to just one of the partners here.

Those candidates who scored well on this particular part:

- adopted a structured approach to outlining the reliefs for the trading loss separately for each of the individuals, and clearly stating the rate of tax saved, as required.
- Didn't waste time considering irrelevant reliefs

In order to gain a good mark in this type of question it is vital that candidates attempt past exam questions which are available in the question banks. Reading through model answers, while providing useful information, is often of limited help in these cases; candidates need to practise the structured approach necessary to produce a good, coherent answer.

Question 5

This question concerned the capital gains tax and inheritance tax implications of the gift of a farm, and, as a separate part, the effect of recent legislative changes on investment decisions.

The majority of this question was focused on the proposed gift of a farm, and required comprehensive consideration of the reliefs available for both capital gains tax – gift relief and entrepreneurs' relief – and inheritance tax – agricultural property relief (APR) and business property relief (BPR). Many candidates scored around half marks, by demonstrating knowledge of the basic principles of capital gains tax and inheritance tax, including the use of exemptions and the recognition of the relevant tax rates to be applied. However, recognition of the reliefs available, and their application, was disappointing. An ability to identify and apply appropriate reliefs for both capital gains tax and inheritance tax is an important skill at P6, and candidates are again encouraged to practise more past exam questions, particularly those involving both capital taxes, in order to improve on this.

Additionally, when a scenario involves a number of transactions, to be carried out at different times, by different people, it is important to provide this information – who is making the gift/sale, and when – to accompany calculations and provide appropriate context. Candidates who do this are able to score much higher marks, by demonstrating understanding of the tax implications in context, than those candidates who just provide calculations without any accompanying details.

The second part of the question concerned the new rules for restriction of the annual allowance for pension contributions for taxpayers with high adjusted net income, and also discussion of the new



nil rate bands for both savings and dividend income. It was pleasing to see that the majority of candidates were aware of these, and consequently scored a pass on this question part.