

# Examiner's report

P6 Advanced Taxation (UK)

June 2016

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.

Those candidates who did not perform as well as they could, generally:

- 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 or wasted time providing information that had not been asked for.
- 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.

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

1. Knowledge of the syllabus
  - 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. In particular, candidates should practise the often more intellectually demanding Section A style 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 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 etc), any matters which are not to be covered, and the precise issues you have been asked to address.
  - You should also note any guidance given in the question or in any notes following the requirement regarding the approach you should take when answering the question.
  - 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.
  - If you are asked to calculate, there is no need to explain what you are going to do before you do 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.
- 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 order to earn these marks candidates had to take a sensible approach to solving the problem set in relation to the timing of the gifts, provide explanations and calculations that were clear and logical, address the specifics of the question, and adopt a professionally acceptable style. On the whole, the performance of candidates in this area was reasonably good, although many candidates did not score the first point because they did not try to solve the timing problem.

### **Specific Comments**

#### **Question 1**

Question 1 was in two main parts: (a) and (b).

Part (a) concerned an individual who had begun trading as a sole trader. It covered his income tax and NIC position as well as aspects of VAT and was in two parts. Candidates often overcomplicated this part of the question because they did not answer the question set and they produced a lot of additional calculations and narrative.

The first part of (a) had two aspects to it. The main issue was the individual's cash flow position and when payments of tax and NIC needed to be made. The taxable profits for the tax years were provided in the question so there was no need to apply the opening year rules. Also, the tax liabilities were provided, so there was no need to calculate them. Instead, the question was testing candidates' abilities to identify when the taxes needed to be paid via self-assessment.

This aspect of the question was not done well. Some candidates provided answers that were not consistent with the requirement. Other candidates did not correctly apply the basic self-assessment payment dates to the facts of the question. Many candidates wasted time by providing additional answers that were not required, for example recalculating the opening year rules and the tax liabilities. The timing of tax payments, particularly where an individual has commenced trading,

is of considerable importance in the real world and is examined and will continue to be examined regularly.

The second aspect of this first part of (a) concerned the purchase of inventory or additional equipment as an alternative to taking drawings. Again, candidates found this to be a challenging area.

Candidates were expected to be aware that the level of drawings was irrelevant when determining the taxable profits of an unincorporated trader.

Many candidates provided incorrect responses about the tax implications of purchasing inventory. The most common was to write that this would reduce taxable profits, which of course is not the case. The purchase of additional equipment was handled reasonably well.

The second part of part (a) concerned VAT, in particular, voluntary registration. The majority of candidates were able to score reasonably well. However, a number of candidates did not pay attention to the requirements and instead wrote everything they knew about the subject as opposed to simply addressing the specific issues of the question.

Finally, in respect of part (a), the recovery of pre-registration input tax was not handled particularly well because most candidates did not state that it was pre-registration input tax.

Part (b) of the question concerned capital gains tax and inheritance tax where there were to be gifts made either before or after the donor and donee got married.

Part (i), relating to capital gains tax, was challenging for many candidates. This was despite the fact that the rules being tested were fairly basic and that guidance as to how to approach the question was provided in the question.

From a capital gains tax point of view, most candidates knew that gifts prior to marriage would take place at market value, whilst those after the marriage would be at no gain, no loss. But candidates did not demonstrate that they can apply this knowledge to the question in order to come up with some advice.

They were also unclear as to the knock-on effect of these rules on the donee's base cost.

There were two things that candidates should have recognised when answering this part of the question.

The first was to recognise that the painting should be given before the wedding in order to realise the loss that was available. The second was to recognise that, in order to create a higher base cost for the shares, it was better to give them before the wedding, but only to the extent that the gains arising would be covered by the loss on the painting and the annual exempt amount. It was then simply a question of working out how many shares needed to be given in order to realise that amount of gain.

This question could not be answered well by just taking the numbers in the question and calculating some gains. Candidates needed to read the guidance from the manager in the question and then think about how to solve the problem.

The second part of (b) concerned the inheritance tax implications of the same gifts. The performance in this part was better than the rest of the question. Candidates needed to take care as regards the annual exemptions and the available nil rate band due to the earlier chargeable lifetime transfer. There was also the need to apply the spouse exemption to any gifts made after the marriage.

## **Question 2**

Question 2 concerned various aspects of corporation tax and income tax and was in three parts.

Part (a) required candidates to review a schedule which had been prepared by a junior member of the tax department. Candidates had to identify any technical errors in the schedule and explain whether or not the notes to the schedule were correct.

There were three errors to spot and candidates did well.

The first error related to the sale of a building. The point here was that the building had been acquired from a group company at no gain, no loss, such that its base cost was the original cost to the group. The majority of candidates identified this point.

The second error was that, in calculating post-tax proceeds, the junior member had deducted the tax from the gain rather than the sales proceeds. This has been a very common error in previous sittings when candidates are asked to calculate post-tax proceeds; very few candidates identified this as an error.

The final error was that the junior member had treated a dividend from a subsidiary as being subject to corporation tax. The majority of candidates identified this error.

The notes to the schedule related to degrouping charges and the substantial shareholding exemption.

Degrouping charges are not so easy to explain and candidates found it difficult to articulate precisely what had been transferred at no gain, no loss, and which company was leaving the group.

Many candidates would have benefited from stating clearly the circumstances in which a degrouping charge arises before trying to work out what would happen in relation to the particular facts of the question. This would have earned a mark and would have clarified the candidates' thinking.

Candidates' knowledge of the substantial shareholding exemption was good with many candidates scoring high marks on this aspect of the question.

Part (b) concerned the payment of a bonus or a dividend. This was more straightforward and was done quite well.

As far as the bonus was concerned, the only common error was a failure to consider the corporation tax savings, as requested by the manager in the question. Often, the candidates who

missed this also failed to consider the NIC implications for the company of the method of remuneration used.

The payment of the dividend was also handled pretty well, although, somewhat surprisingly, some candidates failed to gross up the proposed payment.

The final part of the question concerned the need for the client to disclose income in respect of an earlier tax year. This was straightforward and was done well. Having said that, a minority of candidates had not prepared for this aspect of the exam and so did not attempt this part of the question. One common error was to describe the potential interest and penalties implications in great detail despite the question stating that these matters had already been explained to the client.

### **Question 3**

This question concerned the income tax implications of two alternatives for acquiring a new motor car and of changing the accounting date of the business. It was in three main parts.

Part (a) of the question concerned VAT. It required detailed knowledge and great care in order to achieve a good mark. Performance was mixed, but those candidates who had closely studied this area were able to score well.

The first common, and very surprising, error was to state that the VAT incurred when purchasing the car could be recovered, when the opposite is true. When it came to leasing the car, most candidates failed to mention the 50% restriction. There was also a certain amount of confusion as regards the implications of the fuel scale charge.

Part (b) was in two parts.

The first part concerned the income tax implications of the two alternatives. There were a number of issues that future candidates can learn from in this part. Candidates would have benefited from slowing down and going back to their knowledge of the basics. This was all to do with capital allowances on the one hand, and the adjustments to be made in respect of car leasing payments on the other.

Although some candidates did well, there was a general lack of precision and comprehensiveness, such that some candidates did not score as well as they perhaps could have done.

The second part of (b) concerned the fixed rate mileage scheme. Candidates found this a challenging area and many candidates were not able to demonstrate an understanding as to how payments made under this scheme would be treated.

Part (c) was on a change of accounting date and was not done well. This is a tricky area which candidates should expect to see in the exam regularly. It requires calmness and thought in order to identify points which are relevant to the particular situation as opposed to general matters, which are far less likely to score marks.

In order to do well candidates need to know the rules well and then to address the specifics of the situation. Candidates should remember that questions are not 'about' a particular technical matter, but rather they are about a set of facts which, in turn, have certain tax implications.

It might be helpful for candidates to be aware of the sort of matters they should be addressing in different technical areas. For example, when there is a change of accounting date, candidates should be thinking about whether profits are rising or falling in order to decide whether the change will affect the level of taxable profits this year. Also, they should be thinking about the length of time between earning the profits and paying tax on them. However, they need to relate these general matters to the specific facts of the question in order to score well.

#### **Question 4**

This question concerned the sale of loan stock by a company, the tax treatment of interest paid on loans to acquire a subsidiary and plant and machinery, enhanced capital allowances and the ability of a company to carry back trading losses for relief in an earlier period. The question was in three main parts and consisted of five parts in total. Many candidates did well to manage their time and attempt all five parts of this question.

Part (a) concerned the profit on the disposal by a company of loan stock. This profit was in relation to a loan relationship and therefore was income and not a chargeable gain. This was overlooked by many candidates who calculated a chargeable gain in respect of the disposal. The other common mistake was to deduct the tax from the profit rather than from the sales proceeds when calculating the post-tax proceeds.

Part (b) concerned the relief available in respect of a non-trading loan relationship deficit. This was done well, with a majority of candidates identifying the existence of the deficit and knowing many of the ways in which it could be relieved.

Part (c) of the question concerned the acquisition of plant and machinery and was in three parts.

The first part concerned the tax deductions available in respect of the interest on the loan to acquire the machinery and on the cost of the machinery. This part of the question was done well. Candidates made a good job of the capital allowances and many referred to the split of the AIA between members of a group of companies. The rules concerning the enhanced capital allowances available in respect of the energy saving equipment were less well known.

The second part of (c) concerned the first year tax credit available in respect of the enhanced capital allowances. It appeared that relatively few candidates were comfortable with these rules, such that most candidates did not perform well in this part.

The final part of (c) concerned the carry back of corporate losses. The majority of candidates knew the basic rules in respect of the carry back of losses. However, many did not address the fact that there had been a change of ownership of the company. Where losses are to be carried forward or backwards candidates should always consider whether or not there has been a change of ownership of the loss-making company as this can lead to a restriction on the losses.

## Question 5

This question concerned the tax implications of selling shares whilst not being resident in the UK and of the gift of a house. It was in two main parts.

Part (a) concerned capital gains tax and much of it was done well. It was in two parts.

The first part concerned the sale of shares where the vendor was currently non-UK resident. This question tested a particular set of rules; candidates needed to give themselves a moment before answering it in order to ensure that they were on the right track. Writing about the general basics of capital gains tax was not sufficient to score well.

This part of the question was all to do with temporary non-residents. Although the vendor was living outside of the UK, she intended to return to the UK permanently in 2017, such that she would have been overseas for less than five years. In addition, she had been resident for four of the previous seven years, such that she was a temporary non-resident. It was important that candidates gave reasons for her residence status as opposed to simply stating it.

In order to score well, candidates then had to explain that tax would be due in respect of the sale of the shares because the vendor owned them before she left the UK and that the gain arising would be subject to tax when the vendor returned to the UK.

There was a whole story to tell here with a mark for each of the main points. Candidates had to recognise the importance of the facts of the question and then explain the tax consequences from the beginning to the end in a coherent manner.

The second part of (a) concerned the gift of a principle private residence (PPR). Almost all candidates recognised that the PPR rules were relevant here and, on the whole, their knowledge of the rules was good. However, those scripts which scored well had two further attributes.

First, they took a logical approach and applied the rules to the facts of the situation in a clear and concise manner. By doing so they ensured that all of the relevant points were covered and that there was an explanation and a conclusion for each of the relevant periods of time. Second, they told the story all of the way to the end and dealt with the letting exemption.

Part (b) concerned inheritance tax and, in particular, a gift with reservation. It was done reasonably well by many candidates.

Most candidates recognised that the question concerned a gift with reservation. However, for some candidates this recognition occurred after they had carried out tasks which were not wholly necessary. Candidates should always think before they start writing and identify the specifics of what is being tested so that they can focus on the points which are relevant. Candidates who start each question immediately will often find that their answers diverge from what is required because they have not taken the time to find out exactly what is required and what is, and what is not, relevant.

The calculations were done well. The one common error was a failure to consider the total tax due under each of the two possible alternatives, i.e. treating the gift as a PET and treating it as an asset in the death estate. The majority of candidates simply included the asset in the death estate.