



Examiner's report

P6 (UK) Advanced Taxation

March 2017

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 question 2 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, often 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. 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; 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.
- 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 40s 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 acquisition of two new subsidiaries, provide explanations and calculations that were clear and logical, follow the detailed instructions provided by the ‘manager’, and adopt a professionally acceptable style. On the whole, the performance of candidates in this area was not as good as in recent sittings, particularly in relation to demonstration of their ability to solve the problems set.

Specific Comments

Question One

This question concerned the acquisition of two subsidiary companies, and consideration of the group registration for value added tax (VAT).

The first part of the question was worth 19 marks and had three sub-requirements, clearly spelled out in the manager’s email. A company which had received an asset from another group member via a no gain no loss transfer, was to be acquired by an unconnected company either (1) before, or (2) after, selling this asset outside the group. Candidates were required to advise the acquiring company of the impact of the two different acquisition strategies on the occurrence of a degrouping charge, and the base cost of the relevant asset on disposal, to discuss an appropriate value for the asset in the first case, and then to undertake more detailed examination and explanation of whether or not the first

strategy was financially beneficial. The question was quite challenging, and required careful reading and following of the detailed guidance. There were very few good answers to this question part; the majority were not as good as one would have hoped.

Candidates who prepared satisfactory answers to this part of the question:

- 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; and
- produced clearly laid out and labelled computations.

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.

Candidates must expect that key elements of knowledge at P6 – such as degrouping charges, substantial shareholding exemption and relief for pre-acquisition losses which were tested here – will be tested in a variety of different ways, not always from the same angle. Candidates must be prepared 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.

The second part of the question concerned the residence status of another newly acquired, overseas incorporated, company, and the consequences of making an election to exempt the profits of an overseas permanent establishment from UK corporation tax. Many candidates scored well on this part, demonstrating good knowledge of the rules relating to UK residence for companies and the implications of the exemption. Candidates should avoid wasting time on general discussion, such as the rules relating to UK residence generally, and focus on the facts in the question. Also, where specific advice is required – here, whether or not the company should elect to exempt the profits of the overseas permanent establishment - it is important to clearly state that advice, following discussion of the issue.

The final part of the question concerned the inclusion of the overseas incorporated company in a group VAT registration, and the disadvantages for the group of having a group registration.

The majority of candidates recognised the issue relating to the inclusion of the overseas incorporated company, but only very few knew the precise rules in relation to this. It was also pleasing to see that many recognised the administrative difficulties involved in any group VAT registration, and were able to give specific reasons for this.

The main concern in this question part was due to candidates appearing not to read the question properly, and rather than just considering disadvantages of the group registration, explaining in some detail all the consequences, and the advantages as well as the disadvantages. This wasted a considerable amount of time.

Question Two

This question concerned inheritance tax (IHT) issues arising following the death of an individual, selection of appropriate gifts to make to avoid a capital gains tax (CGT) liability, and comprehensive consideration of the ethical issues following under-declaration of income by an individual.

The first part of the question required consideration of the IHT payable in respect of a lifetime gift following the death of the donor, identification of errors made in the computation of the death estate, and the additional information which would be required in order to be able to finalise this.

Candidates who prepared satisfactory answers to this part of the question:

- read the question carefully and did not waste time preparing computations they had not been asked to prepare; and
- spent more time thinking before they started writing, such that they were able to concisely address the issues, without the inclusion of a significant amount of unnecessary general information.

The first part of the question required candidates to explain whether or not IHT would be payable in respect of a lifetime gift made within the seven years prior to the donor's death. It appeared that many candidates launched into a detailed explanation of the general rules, including the application of taper relief, without pausing to consider the donor's position. Although there were previous potentially exempt transfers (PETs), there was sufficient nil rate band left to cover this gift, so that a simple statement to this effect, and the fact that no IHT was therefore payable was all that was required. Time spent thinking at the start avoided a good deal of unnecessary explanation.

Many candidates were able to identify and correct errors in the IHT computation, although a few produced an amended computation, despite being specifically instructed not to do so, as there was insufficient information to be able to complete this. Although overall this part of the question was done quite well, a very significant number of candidates wasted a considerable amount of time providing unnecessary explanations and computations.

The second part of the question concerned the CGT implications of a number of proposed gifts.

As with the first part, the key skill demonstrated by candidates who prepared satisfactory answers to this part of the question was that they read the question carefully and did not waste time preparing computations which were not relevant. The question clearly stated that the client was intending to sell one or more of three specified assets, one of which was one acre of a three-acre field. Candidates therefore should have confined their answer to consideration of these three assets only, but a very significant number also considered selling more of the field – two acres or three acres – despite the fact that these options were not being considered by the client. Once again, this led to time being wasted for no marks.

The final part of the question concerned professional and ethical issues and was more comprehensive than recent questions, addressing the issue of underdeclared income from the point of view of both the client and the firm. In the main, this was done well, demonstrating that candidates now appear to be well prepared for this type of question.

Question Three

This question concerned aspects of corporation tax and VAT.

The first part concerned a close company which wished to provide funds for one of its participators.

Candidates who produced satisfactory answers had a sound technical knowledge of the rules relating to loans in close companies, and of the implications of a company purchasing its own shares.

Although a good number of candidates were able to deal well with the provision of a loan from the company's perspective, there was almost universal failure to recognise that if the participator pays the official rate of interest on the loan, no taxable benefit will arise. The provision of a variety of benefits to employees (and other participators in a close company), is a frequently tested area at P6 so candidates must ensure that they bring this knowledge forward from F6 and practise questions to improve their ability to apply the rules in different scenarios.

The alternative means for providing funds was for the company to repurchase some of the participator's shares. A key aspect here was the recognition that, due to the facts of the question, this would have to be treated as a distribution as the conditions for capital treatment could not be satisfied. Although a calculation of the number of shares to be repurchased was required, the key to answering this part lay in having the technical knowledge to be able to identify the correct treatment.

The second part of the question required explanation of the due dates for payment of corporation tax in relation to a long period of account.

Surprisingly, this was not done at all well. Most answers were extremely brief, despite the question being worth six marks.

The key piece of advice to candidates as a result of this is to recognise that if figures are given in the question, they are likely to be required for the answer. In this case, the forecast profits were given for the company. Relating this to the topic of 'payment date', candidates should have used the profit figure, together with the profits threshold (£1,500,000) to ascertain whether or not the company would be 'large' and therefore required to pay its tax in instalments.

The final part of the question concerned use of the flat rate scheme for VAT. On the whole, this was quite well attempted, with most candidates scoring a pass.

Question Four

This question concerned planning for CGT for a married couple and for relieving the trading loss incurred by one of them.

Overall this question was done quite well. In particular the candidates who did well:

- recognised the need to deal with the ‘before’ situation in part (a), before the ‘after’ situation in part (b)(ii): and
- had a good technical knowledge of the reliefs available to an unincorporated business in respect of a trading loss.

The first part concerned the capital gains tax implications of disposals made by a husband and wife, including a part disposal and receipt of insurance proceeds for a destroyed asset, before considering any reliefs. This was answered well by a majority of candidates, with a good number scoring full marks.

The second part of this question required statement of the loss reliefs available for the trading loss incurred in an ongoing unincorporated business. 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 trading losses, and ensuring that they are able to recognise those rules which apply in a given scenario, and avoid becoming confused with those which may apply in certain situations only, such as the opening or closing years, which, as here, are not relevant to the scenario.

The third part of the question required candidates to advise the couple as to the most efficient loss relief and support their advice with relevant computations. The answers to this part were very mixed.

Those candidates who scored well on this particular part:

- adopted a structured approach to relieving the trading loss and clearly stated the tax savings:
- provided the advice required, based on the calculations they had performed.

In order to gain a good mark in this type of question it is vital that candidates attempt past exam questions. 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 Five

This question concerned an unincorporated trader who was taking on additional help in the business to enable her to spend more time pursuing her hobby, and also wished to make a deed of variation in respect of a recent inheritance.

The first part of the question required candidates to determine whether it would be cheaper, after tax and national insurance contributions to take on a part-time employee or use the services of a self-employed consultant. This type of question, comparing the after-tax costs of two alternative strategies, is often used at P6 to test application in the context of knowledge which is brought forward from F6.

Answers to this question part were mixed. The better answers were produced by candidates who:

- realised that there was no requirement to actually calculate the after-tax cost in order to provide the required advice as to which was better, as both options would result in the same rate of tax saving for the business owner;
- had a good knowledge of the NIC implications for an employer, including both application of the employment allowance for Class 1, and the calculation of Class 1A contributions; and
- addressed all the requirements, including an explanation of the income tax implications of the benefits for the employee.

The second part of the question concerned the 'badges of trade' and required candidates to identify, from the facts given, two reasons why HM Revenue and Customs might decide that the client, in pursuing her hobby, was carrying on a trading business. Candidates generally performed very well on this question, relating well the relevant badges of trade to the scenario in the question.

The final part of the question related to deeds of variation for IHT purposes. Most candidates were aware of the procedures required to make a tax-effective deed, and the main tax consequences of doing so. The majority of the marks were available for general points in relation to these, and many candidates were able to provide a reasonably competent explanation. Application to the specific circumstances of this question proved to be more challenging, and in many cases candidates wasted time continuing to describe a generic situation, rather than address this client's specific position.