

Examiner's report

Advanced Taxation P6 (UK)

March 2018



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 did not spend sufficient time carefully reading the question and thinking before they started writing. This meant that they did not include sufficient relevant points and/or they wasted time providing information that had not been asked for.

Future 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 (UK) 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 candidates are to perform will be set out in one of the documents. It may be helpful for candidates to tick off the tasks as they 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 candidates with guidance as regards the style and content of their answers. Candidates should note the command words (calculate, explain etc.), any matters which are not to be covered, and the precise issues they have been asked to address.
 - Candidates should also note any guidance given in the question or in any notes following the requirement regarding the approach they should take when answering the question.
 - Pay attention to the number of marks available – this provides a clear indication of the amount of time that should be spent on each question part.
4. Don't provide general explanations or long introductions.
 - If the requirement is to calculate, there is no need for candidates to explain what they are going to do before they do it; just get on with it – only provide explanations when asked to do so.
 - Think before writing. Then write whatever is necessary to satisfy the requirement.
 - Apply knowledge to the facts by reference to the requirement.
5. Think before starting and manage your time
 - Candidates should ensure that they allow the correct amount of time for each question.
 - Before starting to write, candidates should think about the issues and identify all of the points they intend to address and/or any strategy they intend to adopt to satisfy the requirement.

Candidates preparing to resit the exam should think about the number of additional marks they need and identify a strategy to earn them. For example:

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

Finally, candidates should read the various non-technical articles aimed at improving performance in the P6 (UK) exam, which are on the ACCA 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 problems set in parts (i) and (ii), provide explanations and calculations that were clear and logical, keep their answer specific rather than general, and adopt a professionally acceptable style. On the whole, the performance of candidates in this area was reasonably good.

Specific Comments

Question 1

This question concerned an unincorporated trader selling one business and starting another. It also involved value added tax (VAT) and inheritance tax (IHT). It was in four parts.

The first part required calculations to determine whether an election should be made for incorporation relief not to apply. There were some very good answers to this part but most candidates could have done better than they did.

For those candidates who had the requisite technical knowledge, the main issue was the need to take a logical approach to the problem. For a fortunate few, this may have happened automatically, but for others it was necessary to think about the steps required in order to reach a sensible conclusion.

Two sets of calculations needed to be prepared: one with incorporation relief and one without. The calculations needed to deal with the sale of the business to the company **and** the subsequent sale of the shares in the company.

Candidates who only prepared one set of calculations or who only considered the sale of the business were unable to reach any sort of conclusion and also failed to score marks due to not carrying out sufficient work. These candidates often spent too much time writing narrative which had not been asked for or appeared to start preparing calculations, when they were still unsure what approach to take.

It may help candidates who are not sure of the route to an answer to take a moment of calm and think the issues through. They should not be writing when they do this. They should not expect to be able to write their way to an answer.

If candidates had a strategy, the calculations were relatively simple and the total tax liabilities of the two possible situations could be compared and concluded on. This style of question represents a standard problem from the real world and future candidates should expect that the approach required in this question will often be required in the Advanced Taxation exam.

The second part of the question concerned the timing of payments of tax under self-assessment. Again, a few moments of calm thought would have benefited many candidates in order to ensure that all of the main points were covered.

Candidates were told that all of the payments in respect of the tax year 2016/17 had been made but that no payments had been made in respect of 2017/18. So the first payment due was the first payment on account for 2017/18. This should have been paid on 31 January 2018 and so was already overdue. Candidates then needed to address the second payment on account and the balancing payment. The balancing payment required a calculation of the tax liability for 2017/18, which in turn required consideration of the rules for the opening years.

There were some lovely answers to this part of the question, which dealt with each of the payments in a clear logical manner. Weaker candidates started with the calculation of the 2017/18 liability, which meant they omitted the payments on account and failed to score relatively easy marks. In addition, many candidates missed the payment of the capital gains tax liability, which they had calculated in the first part of the question.

The third part of the question concerned the VAT flat rate scheme. There were lots of good answers to this part of the question. Those candidates who did not do so well would have benefited from thinking before writing in order to identify the points they wished to make. In this way they would, perhaps, have remembered to state that (for example) input tax would, generally, no longer be recoverable and that there is a 1% discount for the first 12 months of registration.

The final part of the question concerned IHT and was done well by the majority of candidates. It tested the basic mechanics of the tax, requiring knowledge of the taxation of lifetime transfers and the death estate.

The one area where some candidates did not do so well was the calculation of the increase in the wealth of one of the legatees of the estate. This required consideration of the assets inherited, less the IHT due on the estate less the IHT due on the potentially exempt transfer received within the seven years prior to death. Again, this element of the question required careful thought in order to ensure that all of the necessary components were included.

Question 2

This question concerned the rules in relation to corporation tax and groups of companies and was in four parts.

The first part concerned the matters to be considered where a client had received an unexpected refund of corporation tax. This part was done very well by many candidates. Weaker candidates would have benefited from thinking and identifying the points they wished to make before they started writing. That way, they would have avoided repeating themselves and would have made a greater number of mark-scoring points.

The second part of the question concerned capital gains groups and stamp duty land tax (SDLT). Candidates should have been able to identify the following issues from the facts of the question:

- The original transfer of the building was between two companies in a capital gains group, such that it took place at no gain, no loss and there was no SDLT.
- The capital loss on the subsequent sale of the building prior to the company leaving the group was a pre-entry capital loss, such that its use would be restricted.
- The alternative situation, where the transferee company was sold (within the relevant time limits) *whilst it still owned the building* would result in a degrouping charge and a need to pay the SDLT on the original transfer. In addition, the capital loss on the sale of the building would no longer be a pre-entry loss.

Clarity of thought was paramount here. Candidates needed to identify the tax implications of what had happened and then consider the implications of the alternative situation. Weaker candidates dealt with everything at once. This meant they missed some of the points and produced confused answers which were difficult to follow.

Future candidates will benefit from dealing with the facts of the question in a logical manner. Where there are alternative strategies, they should be clearly dealt with separately.

The third part of the question concerned the annual investment allowance in a group context. Although most candidates knew that the £200,000 limit is divided between the companies in the group, this part was not done particularly well because many candidates did not try to answer the question by applying their knowledge to the facts. Candidates needed to think about the facts of the situation and identify the points which needed to be made. However, many candidates prepared unnecessary and time-consuming corporation tax computations instead.

The final part of the question concerned the substantial shareholding exemption (SSE). Although most candidates realised the need to write about the SSE, many of them lost track of the implications of the exemption in this particular situation.

The point here was that the sale of the shares was going to result in a loss as opposed to a profit. Accordingly, it was important for the SSE **not** to apply otherwise the loss would be exempt. Calm thought was required before putting pen to paper.

Question 3

This question concerned the capital gains tax (CGT) and IHT implications of making a gift to a trust and the CGT consequences following damage to, and the subsequent restoration of, a valuable asset. It was in two main parts.

The first part concerned the gift to the trust and consisted of three tasks.

The first task simply required candidates to list three benefits, from a tax point of view, of making a gift to a trust. This was done well. However, many candidates lost valuable time by providing more than three examples or by writing more generally about trusts. There were many possible reasons which could be given; candidates needed to think, identify three of them and then set them down in an accurate and concise manner.

The second task required calculations of the IHT payable and the increase in the value of the trust assets as a result of the transfer. So there were two parts to the task. The second part of the task was omitted by many candidates.

The requirements are of vital importance in the exam. Candidates should read the requirement carefully and ensure that they have identified each task to be carried out. They should revisit the requirement whilst thinking about their answer and again whilst writing their answer. This will help them ensure they address all requirements and do not omit part of the question accidentally.

The first calculation required consideration of the diminution of the donor's estate and the concept of related property. It was done reasonably well although many candidates demonstrated a degree of confusion in relation to related property. It is only the donor's shares which are valued. However, the value per share is determined by reference to the total of the shares owned by the donor and any related property.

The final task in the first part of the question concerned the rules of CGT gift relief. Most candidates did not know who had to sign the election or the relevant time limit. Many knew that a claim would defer the whole of the chargeable gain arising but failed to calculate the CGT saving which would result from the claim being made. Again, this was an element of the requirement which many candidates simply failed to satisfy.

The second part of the question concerned damage to and restoration of a painting. This is a tricky little area of the syllabus where it is difficult to do well unless you have specifically memorised the approach required. Most candidates did not have a firm grasp of the calculations required here, such that this part of the question was not done particularly well.

Question 4

This question concerned various matters in relation to a close company. It was in three main parts.

The first part set out the shareholders of a company and required candidates to explain why the company was close. Somewhat surprisingly, this part was not done particularly well. Candidates needed to do two things: set out the precise definition of a close company and explain why the company concerned satisfied this definition.

Unfortunately, many candidates only had a vague idea of the definition with many of them confusing the rule for shareholders with the rule for directors. There was also only a very general awareness of the relevance of shareholders being related to each other with little precise knowledge of the rules concerning associates.

The second part of the question concerned the provision of a car to two of the shareholders in the company. This part required calculations, with supporting explanations, in relation to two matters: the tax implications for the shareholders and the after-tax cost incurred by the company. The first matter was done reasonably well, the second one was not.

Most candidates had little difficulty calculating the benefit in respect of the car and the income tax implications for the shareholder who was also a company director. However, rather than simply stating that the benefit would result in a 40% income tax liability, many candidates lost valuable time by producing a full income tax computation. There was also a lack of precision in relation to national insurance contributions (NICs) with many candidates incorrectly stating that the car benefit would increase the shareholder's NIC liability.

The second shareholder was not an employee of the company, such that the provision of the car would amount to a distribution, some of which would be taxed at 0% due to the availability of part of the dividend nil rate band. Many candidates missed this point and so had little to say about the second shareholder.

The second matter (the after-tax cost incurred by the company) caused candidates all sorts of problems. There were two issues: class 1A NIC and capital allowances.

Unfortunately, many candidates missed the class 1A contributions or forgot to recognise the tax deduction available in respect of them.

When it comes to the capital allowances, candidates should appreciate that in most circumstances, the after-tax cost of an item which qualifies for capital allowances is simply the fall in value of the item over the period of ownership less the tax relief available. There is no need to calculate the capital allowances for each year and the subsequent balancing adjustment.

The final part of the question concerned an individual who intended to borrow money from a bank in order to make a loan to the company. This part was not done particularly well as candidates did not have sufficiently precise knowledge of the rules concerning when tax relief is available in respect of interest on a loan.

Question 5

This question concerned the carry forward of trading losses by a company, the income tax implications for an employee with overseas income, VAT on buildings and the provision of a benefit for all employees. It was in three main parts.

The first part concerned a company which had trading losses where there had been a change of ownership.

Candidates were first expected to consider whether there had been a major change in the nature or conduct of the company's trade. Most candidates got this far and related the rules to the facts in the question, although a small minority of candidates missed the fact that the ownership of the company had changed.

However, in order to do well, candidates also needed to consider whether the company had changed its trade (as opposed to whether there had been a major change in the nature or conduct of the company's trade), such that the use of the losses would be restricted under the basic carry forward rule whereby losses can only be offset against future profits from the same trade. Very few candidates clearly identified this issue.

The second part of the question required an income tax computation in respect of an individual in receipt of overseas income. Parts of this computation were done well. However, the majority of candidates did not calculate the double tax relief correctly.

Most candidates knew that the double tax relief was the lower of the UK tax on the overseas income and the overseas tax on the overseas income. However, they did not recognise that the UK tax on the overseas income was the difference between the liability on all of the individual's income and the liability on all of the income excluding the overseas interest.

The third part of the question concerned two matters.

The first matter was the circumstances where it is necessary to charge VAT on land and buildings. This was done well by the majority of candidates who identified the rule in relation to new commercial buildings and the possibility of opting to tax a building.

The final matter on the exam paper concerned the provision of gymnasium facilities to employees of a company which operated a chain of gymnasiums. The point here was that, although this would result in a taxable benefit, the amount of the benefit would be the cost to the company of providing the facilities. This cost would simply be the marginal cost to the company which was likely to be negligible.