

# Examiner's report

## F6 Taxation (UK)

### December 2017

#### General comments

The F6 (UK) Taxation exam is offered in both computer-based (CBE) and paper formats. The structure is the same in both formats but our model of delivery for the CBE exam means that candidates do not all receive the same set of questions. In this report, the examining team share their observations from the marking process to highlight strengths and weaknesses in candidates' performance, and to offer constructive advice for future candidates.

- Section A objective test questions – we focus on two specific questions that caused difficulty in this sitting of the exam
- Section B objective test case questions – here we look at the key challenge areas for this section in the exam
- Section C constructed response questions - here we provide commentary around some of the main themes that have affected candidates' performance in this section of the exam, identifying common knowledge gaps and offering guidance on where exam technique could be improved, including in the use of the CBE functionality in answering these questions.

#### **Section A**

It was pleasing to see that once again almost all candidates attempted all of the questions. 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 two questions are 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.

#### **Sample Questions for Discussion**

Here we take a look at two Section A questions which proved to be particularly difficult for candidates.

##### Example 1

Dee Ltd has been late in filing its last two self-assessment corporation tax returns. The company's self-assessment corporation tax return for the year ended 31 December 2016 shows corporation tax due of £7,000.

**If Dee Ltd files its self-assessment tax return for the year ended 31 December 2016 on 31 August 2018, what amount of penalty will be charged by HM Revenue and Customs (HMRC)?**

- A**     £1,200
- B**     £700
- C**     £1,000
- D**     £1,700

Late filing penalties for corporation tax returns are as follows:

<u>Time after deadline</u>	<u>Penalty</u>
1 day	£100*
3 months	Another £100*
6 months	HM Revenue and Customs (HMRC) will estimate your Corporation Tax bill and add a penalty of 10% the unpaid tax
12 months	Another 10% of any unpaid tax

\*If the tax return is late 3 times in a row, the £100 penalties are increased to £500 each.

If Dee Ltd files its tax return for the year ended 31 December 2016 on 31 August 2018, this would be eight months late, as it was due on 31 December 2017. As Dee Ltd had already been late filing its last two corporation tax returns, then the correct answer is D £1,700, being a fixed penalty of £1,000 and a tax geared penalty of £700 (10% of £7,000). However, most candidates opted for answer B, being just the tax geared penalty of £700.

## Example 2

Petula filed her self-assessment tax return for the tax year 2015-16 on 20 September 2016. She subsequently amended the return on 29 March 2017.

**What is the latest date by which HM Revenue and Customs (HMRC) can give written notice of its intention to commence a compliance check into items changed by the amended tax return?**

- A 31 January 2018
- B 20 September 2017
- C 29 March 2018
- D 30 April 2018

HMRC has a limited period in which they can commence a compliance check and written notice must be given by:

- The first anniversary of the actual filing date, if the return was delivered on time, or
- The quarter day following the first anniversary of the actual filing date, if the return is filed late, with the quarter days being 31 January, 30 April, 31 July and 31 October.

However, if the taxpayer amends the return after the due filing date, as in the case of Petula, then the time limit for a compliance check is extended to the quarter day following the first anniversary of the date the amendment was filed. Since Petula amended her return on 29 March 2017, this is within the quarter date 30 April 2017 and so the time limit for the compliance check is 30 April 2018. So the correct answer is D.

Answer A is the first anniversary of the due filing date.

Answer B is the first anniversary of the actual filing date.

Answer C is the first anniversary of the date that the amended return was filed.

Candidates' answers were mixed, with answer D was the least popular answer, suggesting that most candidates weren't prepared for a question on this topic.

## **Section B**

Section B tests students' knowledge on a topic in more detail than section A, with three case questions of 5 two-mark objective test questions. There were a range of topics covered in the December 2017 examination, and performance was good on all of the areas tested.

Case questions will examine a single tax in the context of a given scenario. Therefore, candidates must be able to apply their knowledge of that tax to that particular scenario to score well. Some scenarios might require candidates to think laterally about the tax calculations they have studied. For instance candidates could be provided with information from a particular point of a computation, such as the chargeable gain on an asset and the disposal proceeds, and then be asked to work backwards to establish what the cost of the asset was. It is therefore very important for candidates to have a thorough knowledge of the method of computation for all taxes on the syllabus.

Some key points that came out of section B were:

- Read the requirement very carefully. This goes for the whole exam, but any objective test question is 'all or nothing', so it is important not to miss important details in a scenario.
- Cover the whole syllabus. F6 (UK) has a large syllabus which can be daunting. Overall candidates performed well in these questions in December so they appear to have covered the syllabus well, and future candidates should also do so.

## **Section C**

Candidates were presented with questions drawn mainly from the areas of:

- Tax planning for a married couple
- Computation of an individual's taxable income
- Computation of an individual partner's trading loss
- Payrolling of benefits
- Relevance of the 'financial year' as regards corporation tax
- Computation of a company's corporation tax liability
- Election for group chargeable gains and capital losses

### **Tax planning for a married couple**

Where tax and national insurance contributions (NICs) figures are given in the original scenario, then candidates should never attempt to recalculate these figures for themselves. All this does is lose valuable time, and there are no marks available for these calculations as the figures to be used were provided in the scenario.

If a requirement asks for full tax computations to support an answer, then these must be provided - calculating the tax saving itself is not sufficient in these circumstances.

Where there are five proposed tax planning measures, these should all be considered together in one full tax computation for each individual, not separate full tax computations for each of the five proposals.

Candidates must try to remember basic principles, so, for example, gains should not be included within an income tax computation and gift aid donations should be used to extend the basic rate tax band (not deducted within the computation).

There is no need for a detailed report when it comes to showing the overall tax saving. A simple computation using the before and after figures is sufficient.

It is important that candidates appreciate the interactions involved in this type of question, and this is why a higher skills [article](#) has been published covering many of the scenarios which could be examined.

### **Computation of an individual's taxable income**

With this type of question, candidates should think carefully about which workings can be included as one-line calculations within the main computation, and which need their own separate working. For example, a basic car benefit calculation such as  $\text{£}21,800 \times (15\% + 3\%) \times 8/12 = \text{£}2,616$  can be included within the main computation.

### **Computation of an individual partner's trading loss**

When allocating a partner's share of a partnership trading loss, candidates need to be very careful regarding dates and profit share percentages, in order to gain the relatively easy marks.

Candidates must also remember that capital allowances are deducted before a profit or loss is allocated.

### **Payrolling of benefits**

To keep abreast of new tax developments, it is essential that candidates read the published Finance Act articles. Payrolling was covered in the [Finance Act 2016](#) article.

### **Relevance of the 'financial year' as regards corporation tax**

Sometimes a requirement might be on a topic which a candidate has not covered as part of their revision, and on some of those occasions a bit of logical thought should lead to the answer. In the case of the relevance of the financial year, it is simply:

- The rate of corporation tax is set for a financial year.
- Other rates and allowances, such as those applicable to capital allowances, are also generally set for a financial year.

### **Computation of a company's corporation tax liability**

Once again, candidates should think carefully about which workings can be included as one-line calculations within the main computation, and which need their own separate working. For example, capital allowances where only the annual investment allowance is involved can just be a line within the main computation.

When presented with a summarised statement of profit or loss, candidates should be very careful regarding which items require adjustment and which need a brand new working. Five minutes spent planning such an answer after looking at the whole scenario will help approach the answer in a logical way

Practising specimen and [past questions](#) is essential. However, candidates should be aware that past exam question papers and solutions published on the website appear as they did when the exams were actually set, as noted at the end of this report.

Working through published answers will enable candidates to see how computations should be laid out, avoiding superfluous detail.

A single column approach with deductions shown in brackets is the best layout for most tax computations.

### **Election for group chargeable gains and capital losses**

A series of [articles](#) cover various aspects of the F6 (UK) syllabus, and reading through the one on groups would have prepared candidates for this requirement on a group's chargeable gain and capital loss. All of the articles (which also cover inheritance tax, chargeable gains, motor cars, benefits and value added tax) contain many examples and sample questions.

### **Exam technique on CBE and paper exams**

Good exam technique is vital for success in F6 (UK). Written sections at F6 (UK) tend to be relatively short, but it is good practice to make each point in a separate paragraph which makes it easier for a candidate to review their answer and ensure they have covered each of the relevant areas. It should also prevent the same point being made more than once.

For the numeric side of the exam, candidates need to focus on a well-structured layout with appropriate workings. If workings are done on a calculator, they should still be shown on the spreadsheet in CBE or on the answer paper in a paper exam, so that partial marks can be awarded even if the full answer is not correct. Workings should also be clearly identified so that it can easily be seen how a figure from a working fits into the main computation.

Candidates should note that valuable time could be lost showing detailed, well laid out, workings for the OT questions. Workings are necessary to ensure you get the correct answer, but they do not need to be detailed in the same way as your workings for section C questions, where your workings for part of your answer. Although not strictly necessary, it is good practice to either cross

out workings for the OT questions or to clearly mark what the workings refer to, so that your marker knows which section they relate to.

When it comes to working with CBE spreadsheets, these have the functionality to calculate numbers for you. This makes it clearer what you've done, rather than typing in a number from a calculator. The spreadsheets also have copy and paste functionality alongside simple formulae which can be time saving in the exam. Just because you are working in a spreadsheet, does not negate the need to properly present your answers. So make appropriate use of headings and blank lines/columns between workings.

There are resources on ACCA's website giving more guidance on how to use the spreadsheet software. A video introducing the main functionality and how to make best use of these in F6 (UK) can be accessed [here](#).

### **Guidance and Learning Support resources to help you succeed in your exam**

Preparing for the F6 (UK) exam may appear daunting but there are many resources available to help you. You should refer to these throughout your studies.

The various technical articles which are available have already been mentioned. There are also study support [videos](#) and exam technique resources – all developed with you in mind.

Reading the [higher skills article](#) (mentioned earlier) will be good preparation for questions covering more than one syllabus area or more than one tax. The article includes a long worked example calculating tax liabilities on a self-employed basis, and then considering three alternative approaches to extracting profits from a limited company.

It is essential to practise as many exam standard questions as you can in the lead up to your exam. We strongly recommend that you use an up to date question and answer bank from one of our [Approved Content Providers](#) but if this is not possible then work through the most recent past exams on our website. However, please note if you are using the past exams that these are **not** updated for syllabus changes or changes to the exam format and so should be used with caution. This warning is especially relevant for taxation given the extensive changes from one tax year to the next – so check the latest [syllabus and study guide](#) for changes.