

Examiner's report

F6 Taxation (UK)

March 2018

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

Since 2012, Sergey has lived in job-related accommodation provided by his employer for Sergey's personal security. He has an annual gross salary of £60,000 for the tax year 2016-17.

Throughout the tax year 2016-17, Sergey's employer paid for heating, cleaning and lighting the accommodation at a cost of £7,000. His employer also provided Sergey with furniture on 6 April 2016 at a cost of £10,000.

What is the amount assessable on Sergey in the tax year 2016-17 in relation to the furniture, heating, cleaning and lighting costs?

- A** £6,000
- B** £9,000
- C** £7,000

D £8,000

The provision of job-related accommodation does not give rise to a taxable benefit in kind for the employee however, where ancillary services are also provided (i.e. the household bills and furniture) an assessable benefit in kind does arise. Where the accommodation is job-related, the assessable amount for these benefits is limited to 10% of net remuneration excluding the household costs, giving £6,000 (10% of £60,000) in this example.

However, answer option B was most commonly chosen. This would be the correct answer if the accommodation was not job-related. It is calculated as the cost to the employer of the household bills, plus the use of furniture, calculated at 20% of the cost of the asset, giving £9,000 (£7,000 + (20% x £10,000)).

This suggests that candidates may not have been aware of the rule to restrict the assessable amount where the accommodation is job-related.

Example 2

Certain individuals are required to complete a self-assessment tax return. The taxpayer must sign a declaration that the information given on the tax return and any supplementary pages is correct and complete to the best of the taxpayer's knowledge.

Which of the following statements is FALSE?

- A** The tax return comprises a main return form, together with supplementary pages for particular sources of income
- B** Partnerships must file a separate return and account for each partner's tax through this return
- C** If HM Revenue and Customs (HMRC) calculates the tax for the taxpayer, it merely does so based on the information provided and does not judge the accuracy of it
- D** An employee who only has employment income, with the tax collected under PAYE, is not required to complete a tax return

The answer which is false is option B. This is because each partner must include their share of partnership profits on their own personal tax return, not the partnership tax return.

Answer option C was the most commonly chosen. This suggests that candidates' knowledge of tax administration could be improved.

Section B

Section B tests candidates' knowledge in more depth than Section A. There are three case questions of 5 two-mark objective test (OT) questions.

The cases are scenario based and each aims to test candidates' knowledge of a tax in an applied manner. For example, a case may aim to test value added tax (VAT) and could cover a range of issues from administration to the calculation of liabilities. To score well, it is important that candidates are able to apply the rules they have learnt to the scenario presented in the case.

Key points that came out of section B included:

- Read the requirement and all case information very carefully. This goes for the whole exam, but any objective test question is 'all or nothing', so it is important not to miss key details in a scenario.
- Cover the whole syllabus. F6 (UK) has a large syllabus which can be daunting. However, it is important to be prepared.
- Be able to apply your knowledge to the scenario given, as mentioned above.

Section C

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

- Tax planning for a married couple
- Computation of the income tax payable by an individual
- The self-assessment system for individuals
- The child benefit income tax charge
- Computation of a company's corporation tax liability

Tax planning for a married couple

Where income tax figures are given in the original scenario, 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.

Where income is to be shared equally between spouses, there is no need for detailed workings. Also, candidates should be very careful to only share that income as indicated by the question.

A conclusion should be just that, with, for example, just a quick calculation of the tax saving. There is no need for a detailed explanation.

Where a question asks if there is any tax advantage to carrying out a course of action (such as investing in an individual savings account (ISA)), then candidates should aim to give more than just an explanation of basic tax rules. For example, there will be no advantage to investing in an ISA if investment income is already exempt due to the availability of the savings and dividend income nil rate bands. Just explaining the ISA exemption is therefore not sufficient.

A suggested course of action may have no tax benefit, and candidates should be prepared to come to such a conclusion. For example, given the transferability of the inheritance tax nil rate band, there is no advantage to ensuring that spouses each have estates valued at £325,000 or more.

It is important that candidates appreciate the interactions that can arise 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 - Computation of the income tax payable by an individual

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 one-off capital allowances calculation such as $\text{£}24,800 \times 8\% \times 25\% = \text{£}496$ could be included easily within the main computation.

Practice as many computations as possible. If this is done, basic mistakes such as including savings and dividend income together and taxing them using the same tax rates, should be avoided.

Where an individual uses their private motor car for business purposes, candidates need to take care that the final outcome is correctly treated as either a deduction from employment income (where HMRC's authorised mileage allowances exceed any amounts paid by the employer) or as a taxable benefit (where the employer payment exceeds the mileage allowances).

A question may include two similar items, but with each having a different tax treatment. For example, charitable donations under an employer's payroll deduction scheme (which are deducted from gross pay) and charitable gift aid donations (which provide basic rate tax relief at the time of payment). It is important that the different tax treatments are clearly understood.

The self-assessment system for individuals

Although the various self-assessment dates and time limits can appear daunting, correctly remembering them can mean very quick, easy, marks. For example, the deadline by which HMRC must notify the taxpayer of their intention to carry out a compliance check and the period for which a taxpayer in business must retain records used in preparing a self-assessment tax return – one mark for each date.

The child benefit income tax charge

As already mentioned, a question asking if a suggested course of action is worthwhile is looking for more than just an explanation of the tax rules. As regards child benefit, it will be worthwhile claiming this provided the income tax charge is less than the benefit received. There is no income tax charge if adjusted net income does not exceed £50,000, and will still be less than the amount of benefit up to income of £60,000.

Computation of a company's corporation tax liability

When presented with a corporation tax computation containing a significant number of errors, candidates need to tread carefully. Having a pro-forma layout to use will be quite helpful, but all the given figures need to be considered with care. For example, a brought forward property business

loss might look quite correct being deducted from property income, but in fact it should be deducted against total profits.

Practising specimen and [past questions](#) is essential. However, candidates should be aware that past exam 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 can be laid out, avoiding unnecessary detail.

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

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 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 form 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.

CBE specimen exams can be found [here](#), with past exams [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.