

# Examiner's report

## TX-UK Taxation

September 2019



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.

### General comments

The TX-UK Taxation exam is mainly offered in a computer-based (CBE) format. The model of delivery for the CBE exam means that candidates do not all receive the same set of questions.

- 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

Section A questions aim to provide a broad coverage of the syllabus, and future candidates should aim to revise all areas of the TX-UK syllabus, rather than attempting to question spot.

### Sample Questions for Discussion

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.

#### Example 1

Elsa is employed by Bee Ltd. During the tax year 2018-19, Bee Ltd provided Elsa with the following benefits:

- (1) A private gym membership
- (2) A contribution of £1,800 into Elsa's private pension scheme

Elsa had use of the private gym membership throughout the tax year. The normal membership fee is £1,000, but Bee Ltd negotiated a discount and paid £900 for it.

**What amount of class 1A national insurance contributions (NICs) are payable by Bee Ltd in respect of Elsa for the tax year 2018-19?**

A. £124

- B. £138
- C. £373
- D. £386

The correct answer was A £124 (900 x 13.8%). This is because class 1A NIC is only charged on the gym membership and it is calculated based on the cost to the employer (not what the employee would have paid).

A number of candidates selected C £373 as the correct answer. This was calculated by including the employer contributions into Bee's private pension in the calculation (i.e. (900 + 1,800) x 13.8%), which is incorrect as these contributions are exempt from class 1A NIC.

### Example 2

**In which of the following cases must an appeal be made directly to the Tribunal?**

- A. A company appealing against a penalty for late filing of a corporation tax return
- B. A company appealing against a penalty for late filing of employer year end returns
- C. An individual appealing against a penalty for late registration for value added tax (VAT)
- D. An individual appealing against a penalty for late payment of capital gains tax

The correct answer is C, because appeals relating to indirect taxes must be made directly to the Tribunal. Many candidates selected A, which is not correct because for direct taxes, appeals must first be made to HMRC.

This is a challenging question on tax administration, an area which candidates often appear to struggle with. Candidates are reminded of the importance of being prepared for questions on all aspects of the syllabus, including tax administration, which is an important aspect of TX-UK.

### Section B

Section B tests candidates' knowledge in more depth than Section A. There are three case questions each made up of five objective test (OT) questions for 2 marks each. As usual there were a range of topics covered in the September 2019 examination.

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 the particular scenario to be able to score well. Case questions can examine a variety of different aspects of a particular tax, for example submission dates for payment of value added tax (VAT), VAT special schemes and VAT scale charges in respect of motor car expenses.

Some key points which came out of Section B included:

- Read the requirement and all case information very carefully. This goes for the whole exam, but any OT question is 'all or nothing,' so it is important not to miss key details in a scenario.

- Cover the whole syllabus in your revision. TX-UK has a large syllabus which can be daunting. However, it is important to be prepared to answer questions on all areas of the syllabus.
- Be able to apply your knowledge in a given scenario.

### **Section C**

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

- Tax savings from incorporating a business
- Assessment of director's bonuses
- Employment income
- PAYE forms
- Income tax planning
- Company instalment payments
- Corporation tax computation
- Corporation tax self-assessment
- 

#### **Tax savings from incorporating a business**

Where income tax figures are given for the original scenario, candidates should never attempt to recalculate these figures for themselves. All this does is use up a lot of time.

Where a conclusion is required as to whether there will be an overall tax saving, this simply needs to be a calculation of the tax difference between the two scenarios. There is no need for a detailed explanation unless this is specifically asked for.

When preparing computations for two different scenarios, candidates should clearly indicate which scenario is being answered. This is particularly important where some of the same information is used in both scenarios.

National insurance contributions (NICs) can often cause problems. Candidates should appreciate which class of NIC is relevant to the type of income under consideration. If remuneration or profits are less than the lower contribution threshold (such as an annual director's remuneration figure of £8,000), then no contributions are due.

It is important that candidates appreciate the interactions which can arise in questions which examine higher skills or more than one tax, and this is why an [article](#) has been published covering many of the scenarios which could be examined.

#### **Assessment of director's bonuses**

Candidates should appreciate that the assessment rules for directors are different to those for employees generally. For directors, the date of determination will override the date of entitlement if earlier.

When asked to explain the month in which a bonus will be subject to PAYE, candidates should always support their answer with appropriate reasoning.

### **Employment income**

Candidates should read the question carefully to make sure they understand what needs to be done. If just employment income is required, then candidates should not spend time calculating the income tax liability.

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 simple beneficial loan working  $\text{£}14,000 \times 2.5\% = \text{£}350$  could easily be included within the main computation and may save some time.

Any items which are not taxable or deductible should simply be listed within the main computation and indicated as such by the use of zero (0) – not by an explanation.

### **PAYE forms**

If a question is for just two marks, then this indicates that only a few brief points need be made, and not a much longer discussion.

Where a question asks for the dates by which PAYE forms should be provided, then these dates need to be precise – including the year relevant to the question.

### **Income tax planning**

When calculating the tax saving from alternative actions, such as having a different company motor car, workings need to be clearly laid out showing the new tax position and then the saving compared to the previous position.

If a taxpayer is clearly an additional rate taxpayer, such as where income is in excess of  $\text{£}300,000$ , then the tax saving can easily be calculated at the rate of 45%. This is much quicker than doing full before and after tax computations.

Although there might only be a  $\frac{1}{2}$  mark for recognising an exemption, such as where a beneficial loan does not exceed  $\text{£}10,000$  during the tax year, it is important to know the various exemptions so that time is not wasted with irrelevant workings.

### **Company instalment payments**

It is important that candidates use the information given in the question. For example, if there are two 100% subsidiaries, then the profit threshold will be reduced to  $\text{£}500,000$  ( $\text{£}1,500,000/3$ ). It will be very difficult to answer the question if such details are ignored.

### **Corporation tax computation**

Again, most workings for this style of question can be included within the main computation.

As previously mentioned, a zero (0) should be used to indicate items which do not require adjustment or for non-taxable income.

The order of items within the main computation should generally follow the layout of the question. For example, if four items are listed under gifts and donations, then they should be dealt with in the same order. This should make it easier for candidates to review their work and may avoid missing items out of the computation.

Where plant and machinery additions exceed the annual investment allowance, then the allowance should initially be allocated against those items which would otherwise fall into the special rate pool. There is less chance of making mistakes if additions are kept separate for this purpose.

### **Corporation tax self-assessment**

When stating how long a company must retain the records used in preparing its self-assessment corporation tax return, answers need to be precise. It is not sufficient to just say six years – it is six years after the end of the accounting period.

Practising specimen and [past questions](#) is essential. Working through published answers will enable candidates to see how computations should be laid out, make sure that their answers can be followed, and avoid superfluous detail.

### **Exam technique on CBE exams**

Good exam technique is vital for success in TX-UK. Written sections at TX-UK tend to be relatively short, but it is good practice to make each point in a separate paragraph - not only does this make it easier to mark a point, it 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. It should be easy for a marker to see how a figure from a working fits into the main computation.

CBE spreadsheets have the functionality to calculate numbers for you. This can save time and make it clearer to your marker what you've done. 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](#).

Some candidates demonstrate little or no knowledge of how spreadsheets work and use them like a word processing response space. You can practice using the extra constructed response workspace (blank spreadsheet) via ACCA Student Support [here](#). Just click through the introductory instruction screens until you reach a spreadsheet. Instruction screens are designed to be

representative of those displayed in the live exam and provide useful guidance. It is important that you are familiar with the spreadsheet functions before the exam. The functions are more restricted than found on a normal spreadsheet (such as Excel). However, it is easy enough to simulate these restrictions and to practice answering questions on normal spreadsheets.

Many candidates either do not use the SUM function, or do not use it correctly. Sometimes candidates add up a column of numbers manually or add up each cell individually (A1 + A2 + A3 etc.). Although marks will still be awarded regardless of how the correct answer is reached (i.e. manually or SUM function), the use of the SUM function is recommended as it can offer a significant time saving. You must make sure that any negatives in the column to be summed are included as negatives.

The ability to include calculations within cells is recommended only for very straightforward computations to minimise the risk of error. So fine for a simple corporation tax calculation, but not for a full three or four mark capital allowances computation. Even then, it is good practice to show workings. It is not advisable to net off figures within cells (such as deducting pension contributions from a salary figure). Markers will be expecting to see certain figures (including incorrect variations), but netted off figures will be completely unfamiliar.

It is good practice if you copy the total from a working into the main computation by cross-referencing to the cell, rather than copying the number. This helps markers to find the working and to see how the answer fits together, plus there is a reduced chance for errors.

Laying out workings on a vertical basis is much easier to follow than those laid out horizontally (across the spreadsheet) – both for you and for markers.

It is not possible to insert or delete rows and columns in a CBE spreadsheet. So when it comes to spacing, the recommended approach is to use cut and paste if more space is needed or if too much space has been left between the main computation and workings. Some candidates leave more than 100 lines between their main computation and their workings, often without any reference to where the workings are to be found which is not good practice. So either (1) move workings upwards on completion (this is the best option), (2) cross-reference, or (3) add a note as to where workings can be found.

Negative figures are easier to read if shown in brackets or (better still) shown in red.

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

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

There are various technical articles available and 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.