



Examiner's report

Taxation (TX-UK)

December 2018

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 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.

- 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 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 TX-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

Humphrey is a sole trader who has been trading for a number of years.

Humphrey incurred a trading loss in the tax year 2017–18. He wishes to make a claim to offset this loss against his total income of the tax year 2016–17.

What is the deadline for Humphrey to claim this relief?

- A 31 January 2019
- B 31 January 2020
- C 5 April 2021
- D 5 April 2022

This question examines knowledge of the deadline for an individual taxpayer to claim relief for a trading loss which they wish to offset in the tax year prior to the tax year in which the loss arose. The correct answer is option B (31 January 2020), as a claim must be made within one year of 31 January following the end of the tax year in which the loss arose. Therefore, as the loss arose in the tax year 2017-18, a claim for relief must be made by 31 January 2020.

Option B was the most common answer selected but a significant number of candidates also chose each of the other answer options, suggesting that many candidates were not well prepared for a question on this topic. The second most common answer was option A (31 January 2019) which is the deadline for submitting a personal tax return online for the tax year 2017-18. Candidates may have selected this date as they are familiar with this deadline in relation to the tax year 2017-18 and assumed the deadline for claiming the loss would be the same.

Administration deadlines, both for individuals and companies, are an important part of the syllabus and future candidates are reminded of the importance of learning, and being able to distinguish between, the different deadlines as part of their studies.

Example 2

Alice is registered for value added tax (VAT) and calculates her VAT liability based on the flat rate scheme. The relevant flat rate percentage for Alice's business is 10%.

For the year ended 31 March 2018, Alice's sales (exclusive of VAT) were:

Standard rated sales	£50,000
Zero rated sales	£20,000
Exempt sales	£5,000

What amount of VAT is payable by Alice to HM Revenue and Customs (HMRC) in respect of the year ended 31 March 2018?

- A £8,500
- B £8,000
- C £7,500
- D £6,000

This question on value added tax (VAT) required candidates to calculate the amount of VAT payable by an individual taxpayer who calculates their liability based on the flat rate scheme. The taxpayer made standard rated, zero rated and exempt sales so it was crucial for candidates to know that the flat rate percentage is applied to total VAT-inclusive turnover under the flat rate scheme in order to answer this question correctly.

The correct answer was option A (£8,500) which was calculated as follows:

	£
Standard rated sales (£50,000 x 120%)	60,000
Zero rated sales	20,000
Exempt sales	5,000
Total VAT inclusive sales	<u>85,000</u>

Value added tax:
£85,000 × 10% 8,500

The most common answer was option C (£7,500) which is the answer arrived at if VAT at the standard rate is not included on the standard rated sales ((£50,000 + £20,000 + £5,000) × 10%). This demonstrates that many candidates did not appreciate the need to calculate VAT using VAT inclusive figures, or had not realised that the figures provided excluded VAT.

Candidates are reminded of the importance of the VAT special schemes for the TX-UK exam and also of the importance of reading questions carefully before calculating and selecting an answer.

Section B

Section B tests candidates' knowledge on a topic in more detail than Section A, with three case questions consisting of five objective test questions for two marks each. There were a range of topics covered in the December 2018 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 in order to score well. Case questions can examine a variety of different aspects of a particular tax, for example recognising exempt assets for the purposes of capital gains tax (CGT) and demonstrating knowledge of the qualifying conditions for entrepreneurs' relief.

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 any important details in a scenario.
- Cover the whole syllabus. TX-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 aim to do so.

Section C

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

- Tax planning involving investments
- Loss relief for individuals
- Choice of loss relief claims for an individual
- Corporation tax computations

Tax planning involving investments

Candidates should be very careful when reading through a question to make sure they note what information is provided. This will avoid, for example, including the capital element of investments as income, leading to a quite distorted answer.

A conclusion simply needs to be a calculation of the tax difference between the two scenarios. There is no need for a detailed explanation.

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.

Be aware of when working at the margin (using a taxpayer's marginal rate of tax rather than preparing full tax computations) can save a lot of work and time. For example, where a taxpayer's tax liability has already been calculated in part (a), and part (b) then asks for the tax saving if dividend income becomes exempt due to investments being put in an individual savings account (ISA).

Where a question contains a requirement for just one mark, clearly a detailed answer is not expected. Just one or two sentences are all that is needed.

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

Loss relief for individuals

If a question is clearly based around loss relief claims for a trading loss, then candidates should ensure they attempt to do something with the loss – especially where the claims to be made are given in the question. Only a few half marks will be lost if claims are made at the wrong point in the computation.

Where a question spans several tax years, candidates need to think carefully about their presentation. If three tax years are given, for example, then a three-column layout approach will be much easier to work with. The correct use of a spreadsheet will automatically redo many of the calculations if any entries are subsequently amended.

If instructed to base tax computations around stated loss relief claims, then that is exactly what should be done – even if the claims are not the most beneficial and result in little or no tax saving.

Should a question involve both income and chargeable gains, then the gains should be kept entirely separate. They do not form part of a taxpayer's taxable income even if relieved by a trading loss.

Candidates should always clearly show how a figure, such as an unrelieved carried forward trading loss, has been calculated.

Practice as many computations as possible. If this is done, basic mistakes such as treating taxable benefits as deductions can be avoided.

Choice of loss relief claims for an individual

If a requirement asks for two separate things, then candidates should obviously answer both of them. For example, they could be asked why planned loss relief claims are not the most beneficial, and to then suggest a more advantageous use of the loss. A general discussion of loss relief is not what is required.

Vague answers are not going to score many marks. For example, say that a claim should be made for the year in which the taxpayer is a 45% additional rate taxpayer, rather than saying the year in which income is the highest. Just because income is higher does not necessarily mean that the marginal rate of tax is any higher.

If told to ignore a specific loss relief claim (such as relief for losses incurred in the first four years of a trade), then that is exactly what candidates should do. If told that calculations are not required for part of a question, then, again, candidates should follow this guidance. A lot of time is spent writing and discussing a question's requirements, and such guidance is there to help candidates and prevent answers from becoming too complicated or too long for the available marks.

Corporation tax computation

If a question involves a partly completed draft corporation tax computation along with various queries to deal with, then it is not sufficient to just deal with the queries – the entire revised tax computation is required along with any correct figures that have been provided.

When making adjustments to a trading profit, candidates need to be very careful that adjustments are correctly added and not deducted. This is particularly the case when using the SUM function on a spreadsheet. If items do not require adjustment, then this should always be indicated by the use of zero (0) – not by an explanation.

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 group relief calculation such as $£37,200 \times 3/6 = £18,600$ should be included within the main computation.

Candidates should take particular note where there has been a change to the rate of corporation tax and a company's accounting period falls across two financial years. This is why question practice is so important.

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 and paper 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 numerical 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 makes 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.

If sitting a PBE, candidates should note that it is a waste of time showing detailed, well laid out, workings for the OT questions. 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. This avoids your marker having to review this section of your answer.

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

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.

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.