



Examiner's report

TX-UK Taxation

March 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 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 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 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

Hana was UK resident in the tax year 2016-17. He worked full-time in Egypt throughout the tax year 2017-18.

What is the maximum number of days which Hana can spend in the UK and be treated as automatically not resident in the UK for the tax year 2017-18?

- A 15
- B 45
- C 90

D 182

This question examines the third automatic non-UK residency test. For an individual to meet this test, and therefore be treated as automatically not resident in the UK for the tax year 2017-18, they would have to work full-time overseas and spend less than 91 days in the UK. Therefore, because Hana worked full-time in Egypt throughout 2017-18, he will be treated as automatically not resident in the UK for the tax year as long as he spends no more than 90 days in the UK.

The correct answer is therefore C, however, answer option A was most commonly chosen. This would be the correct answer using the sufficient ties tests. However, the sufficient ties tests are only used to determine residence status if none of the automatic non-UK residence tests (and none of the automatic UK residence tests) is met.

This suggests that candidates may not have been familiar enough with the residence tests and the procedure to determine residence.

Example 2

Which of the following gifts made by an individual is exempt from capital gains tax?

- A Gift of a motor boat valued at £10,000 (cost £5,000) to his aunt
- B Gift of unquoted shares in a United Kingdom company valued at £2,500 (cost £1,800) to his brother
- C Gift of antique jewellery valued at £6,800 (cost £3,200) to his sister
- D Gift of a sculpture valued at £3,000 (cost £10,000) to his nephew

This question examines exempt gifts for capital gains tax purposes. The correct answer is A, gift of a motor boat valued at £10,000 (cost £5,000) to his aunt. This is an exempt gift because it is a wasting chattel (i.e. a tangible, movable asset with an expected life not exceeding 50 years. Wasting chattels (other than those eligible for capital allowances) are always treated as exempt disposals. The value and original cost are irrelevant.

Answer option B was the most commonly chosen, suggesting that candidates may not have known the special rules regarding chattels well enough.

Section B

Section B tests candidates' knowledge in more depth than Section A. There are three case questions of five, 2- 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. TX-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:

- Running a business either as a sole trader or as a limited company
- Tax adjusted trading profit for an unincorporated business
- Taxable income
- Tax adjusted trading loss for a limited company
- Corporation tax computation
- Corporate loss relief

Running a business either as a sole trader or as a limited company

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.

There is no need to prepare a summary or write a conclusion unless required to do so. Again, this just loses time. If a conclusion is required, then this 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.

Questions involving national insurance contributions (NICs) can often be challenging for candidates. It is worth remembering that only director’s remuneration and trading profits are relevant when it comes to calculating NICs – dividends and corporate profits are irrelevant. Furthermore, if remuneration or profits are less than the lower contribution threshold (such as an annual director’s remuneration figure of £8,000), then no NICs are due.

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

Tax adjusted trading profit for an unincorporated business

Candidates should read the question and requirement(s) carefully to make sure they understand what is being asked. When calculating the tax adjusted trading profit, items of miscellaneous income only need to be adjusted for if they are incorrectly included within the trading profit figure, and therefore need to be deducted. If this applies, it will always be made clear in the question.

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, capital allowances for a motor car (such as $£14,000 \times 18\% \times 4/12 \times 80\% = £672$) should be included within the main computation.

For this type of question, candidates should ensure they know the capital allowances rules thoroughly. For example, short-life assets are not pooled and a disposal will therefore result in a balancing adjustment.

Taxable income

Again, most workings can be included within the main computation.

If there are various items of miscellaneous income, then these should simply be listed within the main computation. Any items which are exempt from tax should be indicated as such by the use of zero (0) – not by an explanation. A separate working is not required.

Candidates should note that taxable income means after the personal allowance has been deducted.

As previously mentioned, the requirements should always be read very carefully. If candidates are required to calculate taxable income, then calculating the income tax liability simply loses valuable time and marks will only be available for the required answer.

Candidates should practice as many computations as possible, being careful to treat items of income and expenditure correctly. For example, a common mistake made by candidates in this type of question is to treat mileage allowance as income rather than as a deduction.

Tax adjusted trading loss for a limited company

When dealing with a trading loss, candidates need to be very careful to ensure that adjustments are correctly added or deducted. Treating the loss as a negative figure means that there is no need to change the approach from that used for a trading profit when making adjustments. The correct use of the SUM function on a spreadsheet will help in this regard. If items do not require adjustment, then this should always be indicated by the use of zero (0) – not by an explanation and not as separate workings.

Candidates should note that a company's tax adjusted trading profit or loss is *after* taking account of interest payable on trade loans, with interest calculated on an accruals basis.

Corporation tax computation

If the requirement states that taxable total profits should be calculated *before* taking account of any possible loss relief claim, then this is what candidates should do. Including the loss, when not asked for in the requirement, is likely to result in there being no scope for offsetting qualifying charitable donations, meaning any available marks for this cannot be achieved.

Corporate loss relief

Candidates should be careful to answer the requirement as set, rather than the requirement they may like to answer. For example, if candidates are asked to state the two requirements which must be met if a company wishes to claim relief for its trading loss, then a general discussion of available loss relief claims is not what is required.

When calculating the amount of corporation tax which will be repaid by HM Revenue and Customs (HMRC) as a result of making a loss relief claim, candidates need to consider what amount of corporation tax was originally paid and how much will be due after making the claim. For example, if profits are reduced to nil as a result of making the loss relief claim, then all of the corporation tax originally paid will be repaid.

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.

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.

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 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.

CBE spreadsheets 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.

If sitting PBE, 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.

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 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.