



Examiner's report

TX-UK Taxation

June 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

Olive is self-employed, preparing her accounts to 5 April each year. She claims capital allowances on a motor car used in her business. The motor car has a CO₂ emission rate of 145 grams per kilometre, with 40% of Olive's mileage for private purposes.

The motor car had a tax written down value of £12,000 at 6 April 2018. Olive sold the motor car for £6,000 on 1 November 2018.

What amount of capital allowances can Olive claim in respect of the motor car for the tax year 2018-19?

- A** £3,600
- B** £648
- C** £2,400
- D** £288

This question required candidates to demonstrate their knowledge in respect of capital allowances on cars, where there was a disposal of a car during the year which was also used for private use by Olive.

As the car was disposed of during the year, candidates need to recognise that a balancing allowance arose on its disposal, and that the amount of capital allowance Olive could claim was restricted to the business use element (i.e. 60%). The correct answer was therefore A £3,600 $((12,000 - 6,000) \times 60\%)$.

Many candidates instead chose D, continuing to write down the cost of the car, rather than calculating a balancing allowance. Candidates are reminded that cars which are used partly for private use by a sole trader are put into their own pool and on disposal a balancing charge or allowance may arise.

Example 2

Sandeep made a gift of £425,000 to a trust on 10 November 2018. No agreement has been made about who will pay the inheritance tax (IHT) in respect of this gift.

What is the due date for payment of the IHT and who is primarily liable for its payment?

- A** The trustees are liable to make the payment by 31 May 2019
- B** The trustees are liable to make the payment by 30 April 2019
- C** Sandeep is liable to make the payment by 31 May 2019
- D** Sandeep is liable to make the payment by 30 April 2019

This question tested candidates' knowledge of the payment of IHT on a chargeable lifetime transfer (CLT) to a trust. The donor, Sandeep, is primarily liable for the tax due on a CLT and the due date is the later of the following:

- (i) Six months after the end of the month of transfer
- (ii) 30 April after the end of the tax year of transfer

The later of these dates is therefore 31 May 2019 and so the correct answer was C. Many candidates were able to select the correct date, but were less successful in determining who was primarily liable for payment. Tax administration and the payment of tax are important aspects of the syllabus and candidates are reminded to devote sufficient attention to these topics when preparing for the TX UK exam.

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 June 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.

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. TX-UK has a large syllabus which can be daunting. However, it is important to be prepared.
- Be able to apply your knowledge to a given scenario.

Section C

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

- Implications of making a personal pension contribution
- Husband and wife capital gains tax (CGT) planning
- Inheritance tax (IHT) on death
- Residence
- Factors indicating employment
- Taxable income
- Corporation tax computation
- Tax adjusted trading loss for a limited company
- Corporate chargeable gains and capital losses

Implications of making a personal pension contribution

Where a question states that full tax computations are not required, then this indicates that workings should be done at the margin. Such an approach will be more straightforward and save time.

Candidates should appreciate that personal pension contributions have no impact on national insurance contributions, so this fact should just be stated without any need to perform calculations.

It is also important to carefully consider the level of a taxpayer’s income. For example, making the personal pension contribution might mean that the taxpayer’s personal allowance is reinstated if adjusted net income is reduced to less than £100,000.

Husband and wife capital gains tax (CGT) planning

Transferring an asset to a spouse prior to its disposal can mean a lower rate of CGT on some or all of the gain, plus the availability of the spouse’s annual exempt amount. Once this basic tax planning is understood, calculating the tax saving should be fairly straightforward.

Given that the rates of CGT are provided, there is really no explanation for using incorrect rates.

Inheritance tax (IHT) on death

Candidates must expect that sometimes a tax calculation will lead to a nil amount of liability. This is especially the case for IHT where nil rate bands totalling £900,000 can be available if a spouse's unused nil rate band of £325,000 and residence nil rate band of £125,000 are available in addition to those of the individual.

Given the transferability of these nil rate bands to a surviving spouse, there will often be no advantage to leaving assets to children on the first death.

Residence

When answering a question on residence, candidates need to focus on the information given. For example, there may be little to gain from mentioning the UK ties which are not met by a taxpayer.

If a question is for just two marks, then this should indicate that only a few brief sentences are required and not a half page discussion on everything a candidate knows about the residence rules.

Factors indicating employment

If asked to state, say, four factors, candidates should try and avoid repetition such as the taxpayer (1) attending weekly meetings, and (2) receiving instructions – these are both indications of control.

An answer of this nature is suited to a list format.

Taxable income

Many workings for this style of question can be easily 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 definitely not required.

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

The requirements should always be read very carefully. If a question states that taxable income is to be calculated, then calculating the income tax liability is not an efficient use of time and will not earn any marks.

Corporation tax computation

Candidates should remember that for current and prior period loss relief claims, loss relief is claimed prior to offsetting qualifying charitable donations.

A question's requirements should always be followed, so if three computations of taxable total profits are required, then that is what candidates should produce.

Tax adjusted trading profit for a limited company

When dealing with straightforward capital allowance computations, it may be quicker to include them in the main computation rather than producing a full capital allowances working.

Corporate chargeable gains and capital losses

Where a question involves more than one disposal, then the gain or loss for each disposal must be calculated separately.

Candidates should be aware that there is no indexation allowance for any expenditure incurred after 31 December 2017.

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 - this 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 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 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 limited knowledge of how the spreadsheet response spaces work and use them like a word processing response space. You can practice using the extra constructed response workspace (blank spreadsheet) via the ACCA website [here](#). The 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.

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 for example a simple corporation tax calculation is probably fine, but not for a full three or four mark capital allowances computation. Even then, it is good practice to show workings.

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 to see how the answer fits together, plus there is a reduced chance for errors.

Laying out workings on a vertical basis can be easier to follow than those laid out horizontally (across the spreadsheet).

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 making it harder for candidates to review their answer as a whole. Candidates are advised to 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 which are available. There are also study support [videos](#) and exam technique resources – all developed with you in mind.

Reading the [higher skills article](#) 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 is 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.