Examiner's report
F6 (UK) Taxation
December 2015

General Comments
There were two sections to the examination paper and all of the questions were compulsory. Section A consisted of 15 multiple choice questions (two marks each) which covered a broad range of syllabus topics. Section B had four questions worth 10 marks each and two longer questions worth 15 marks, each testing the candidates' understanding and application of taxation in more depth. The following paragraphs report on each section and focus on some of the key learning points.

Specific Comments

It was very pleasing to see that once again almost all candidates attempted all of the questions. Candidates preparing for the next examination of F6 (UK) are advised to work through the specimen paper, past exam papers and sample questions discussed here and to carefully review how each of the correct answers were derived. 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.

Example 1

Mo purchased an antique desk in July 2004 for £4,700. He sold the desk in May 2014 for net proceeds of £6,900, after deducting selling costs of £300.

What is Mo's chargeable gain arising on the sale of the antique desk?

A £2,000
B £2,200
C £1,900
D £1,500

This question tested candidates' knowledge of the capital gains tax rules that apply for chattels. Where sale proceeds exceed £6,000, then the gain is restricted to (gross proceeds - £6,000) x 5/3. The correct answer was therefore ((£6,900 + £300) – £6,000) x 5/3 = £2,000. Unfortunately, the most popular answer was D, which ignored the selling costs ((£6,900 - £6,000) x 5/3 = £2,000). The normal gain of £2,200 (£6,900 - £4,700) was also preferred to the correct answer.

This topic is regularly examined, so remembering a fairly simple formula should result in the correct answer provided candidates ensure that they carefully read the facts of the question.

Example 2

An individual must notify HM Revenue and Customs (HMRC) within a fixed period of time from the end of the tax year if they are chargeable to income tax for that tax year. For late notification a penalty will be charged, and this will be based on the percentage of the potential lost revenue.

What is the notification period and the maximum penalty which can be imposed for late notification?

	Notification period	Maximum penalty
A	12 months	100%
B	6 months	100%
C	12 months	50%
D	6 months	50%

This question tested candidates' knowledge of two aspects of the self-assessment system as it applies to individuals. Firstly, the date for notifying HMRC of becoming chargeable to income tax, and secondly the potential penalty for late notification. Notice of chargeability must be made by 5 October following the end of the tax year, which is six months from the end of the tax year (5 April). The amount of penalty depends on a taxpayer's behaviour, but where the failure is deliberate and concealed the maximum penalty is 100% of the potential lost revenue. The correct answer was therefore B. However, for this question, answers were fairly evenly divided across the four choices – indicating that candidates were simply making a guess. A good approach in this situation is to see if you can eliminate one of the answers, leaving yourself a 50/50 choice. For example, when considering the two dates, 12 months (the following 5 April) could not be the correct answer because this would be after the date when the taxpayer needs to file their tax return. Therefore, answer options A and C should have been quickly discarded as incorrect.

Section B

Question One

This question was on capital gains tax, and it involved a taxpayer who had disposed of an investment property during the tax year, with the chargeable gain being provided. In addition to this disposal, the taxpayer was going to make one further disposal during the tax year. This disposal would be of either their holding of £1 ordinary shares in an unquoted trading company, or their holding of 50p ordinary shares in a quoted trading company. The disposal of the shares in the unquoted trading company qualified for entrepreneurs' relief. The disposal of the shares in the quoted trading company resulted in a capital loss, and it was necessary to apply the share valuation rules in order to establish the cost figure.

Part (a) of the question was well answered, requiring a calculation of the taxpayer's capital gains tax liability for the tax year if the investment property was their only disposal in that tax year.

Part (b) required revised capital gains tax calculations for the tax year if, during the tax year, the taxpayer also disposed of either (1) their shareholding in the unquoted trading company; or alternatively (2) their shareholding in the quoted trading company. The main problem here was that candidates did not appreciate that both disposals would impact on the capital gains tax payable in respect of the disposal of the investment property. The disposal of the shares in the unquoted trading company (qualifying for entrepreneur's relief) would utilise the remaining basic rate tax band, meaning that the 28% rate was now applicable. The capital loss arising on the disposal of the shares in the quoted trading company would be offset against the chargeable gain on the investment property. Another common problem was the 50p nominal value of the shares in the quoted trading company. This did not impact on the calculation of the capital loss, although many candidates incorrectly divided their cost figure by two.

Question Two

Part (a) of this question involved a taxpayer who had commenced self-employment on 1 July. They were unsure whether to have an accounting date of 5 April or 30 June, and forecast trading profits were given for each alternative. The requirement was to calculate the amount of trading profits which would be assessed on the taxpayer for each of their first two tax years of trading if they had an accounting date of (1) 5 April; or (2) 30 June. This section was well answered, especially if candidates remembered that the calculations for an accounting date of 5 April are quite straightforward, with no overlap profits arising.

Part (b) involved a different taxpayer who had commenced self-employment on 6 April. The taxpayer was unsure whether to use the accruals basis or the cash basis to calculate their trading profits. This section was not answered as well, with the requirement being to calculate the reduction in the taxpayer's income tax liability for the tax year if they used the cash basis to work out their trading profit rather than the accruals basis.

There were various problems here, with many candidates calculating profits under just one basis. There was often no indication as to which basis was being answered. For the accruals basis, it was necessary to deduct motor expenses and capital allowances. For the cash basis, a mileage allowance was applicable. However, all of these deductions were often given under both options. This section should have been quite straightforward to answer, but it needed some planning beforehand. The majority of candidates wasted time by calculating the tax liabilities under each option, rather than the just applying (an obvious) marginal rate of 40% to the profit reduction. This marginal rate approach is regularly used at F6 (UK) and can save candidates a lot of time.

Question Three

The first part of this inheritance tax question required candidates to explain whether or not a married couple is treated as a chargeable person for inheritance tax purposes, and to then state the special inheritance tax measures which are applicable to married couples. This section was well answered, but candidates need to appreciate that where requirements are just for one mark or two marks, then only very short precise answers are required.

Part (b) involved a taxpayer who had died in the tax year, having made three gifts during their lifetime. These were (1) a chargeable lifetime transfer to a trust more than 7 years prior to death, (2) a chargeable lifetime transfer to another trust within 7 years of death (the taxpayer had paid the related lifetime inheritance tax) and (3) a gift (a potentially exempt transfer) of ordinary shares in an unquoted investment company to the taxpayer's daughter within 7 years of death (it was necessary to apply the diminution in value rules in order to establish the value of this transfer).

This requirement was generally well answered, being to calculate the inheritance tax which would have been payable as a result of the taxpayer's death. However, many candidates wasted a considerable amount of time by calculating the lifetime inheritance tax (this was not necessary because the relevant lifetime tax was provided within the question), and unnecessarily complicating their answers by deducting annual exemptions (the question stated that these should be ignored). A few candidates simply added together all the transfers, making it impossible, for example, to correctly calculate taper relief. Working through past examination questions would have avoided such problems.

Question Four

This value added tax (VAT) question was mainly narrative, and as such was not well answered by the majority of candidates attempting it. Candidates should expect VAT questions of this nature because this area of the syllabus contains just a few topics that can be examined numerically.

The question involved a taxpayer who was self-employed. They had recently registered for value added tax (VAT) and had queries on certain aspects of the VAT system.

Part (a) of the question required candidates to state the information that the taxpayer must show on their sales invoices in respect of their own business and also in respect of their customers in order that their invoices were valid for VAT purposes. Although candidates generally managed to eventually reach the correct answer, far too many listed every conceivable piece of information that a VAT invoice should contain – rather than focusing on the requirement.

Part (b) required candidates to explain how free samples (given to potential new customers) and free gifts of goods (given to existing customers for reaching annual sales limits) should be valued for output VAT purposes. This section was not satisfactorily answered. Many candidates discussed VAT in general terms, when all that was required was the valuation aspect – the samples had an effective nil value, with the free gifts being valued at cost (subject to a £50 exception).

Part (c) of the question required candidates to explain the VAT treatment of goods acquired by the taxpayer from VAT registered businesses situated within the European Union, and goods supplied by the taxpayer to VAT registered businesses situated within the European Union. Again, this section was unsatisfactorily answered, with candidates often incorrectly explaining the import/export rules, or providing very vague answers such as the acquisition would be treated in the same manner as a UK purchase – without any further detail.

Part (d) needed an explanation as to how the payment of the taxpayer's VAT liabilities would differ if they were to use the annual accounting scheme rather than submitting quarterly VAT returns. Candidates often displayed some excellent knowledge by explaining when the annual accounting scheme can be used and the advantages of using the scheme. But unfortunately, they were not answering the requirement which was solely concerned with payments and due dates. The fact that the taxpayer was currently paying quarterly (despite this being stated in the requirement) was simply ignored by many candidates. This is probably one of the best examples of why it is absolutely essential to read and understand what the question requirement is asking for.

Question Five

This was the 15-mark question focussing on income tax. It involved a married couple who were both employees. The wife was also a partner in a partnership.

Part (a) of the question was a typical income tax liability calculation (for both the husband and wife), and it was generally very well answered.

Apart from his salary, the husband's only other income was his share of the interest from a jointly held building society deposit account. It was necessary to restrict his personal allowance.

In addition to her salary and partnership trading profit, the wife had the use of a company car, paid subscriptions, paid interest on a personal loan taken out to purchase her share in the partnership, made monthly donations to charity under the payroll deduction scheme operated by her employer, and made charitable gift aid donations.

Generally, for this style of question candidates should aim to keep their workings to a minimum – virtually all of the workings for the wife could have been included within the main income tax computation.

Part (b) of the question involved income tax planning, requiring a calculation of the husband's income tax saving for the tax year if the building society deposit account had been in his wife's sole name instead of in joint names for the entire year. Given that the husband's personal allowance restriction would be reduced, the answer was simply the amount of interest at 60%. However, half page answers were quite common. Once again, working at the margin (where appropriate) could have saved an enormous amount of time.

Question Six

This was the 15-mark corporation tax question. It involved a company that commenced trading and ceased trading 16 months later. The company prepared financial statements for a year and then for the four-month period to cessation.

Part (a) of the question required candidates to calculate the company's taxable total profits for the year first 12 month accounting period, and the company's trading loss, property business loss and capital loss for the four-month period to cessation. This section was quite well answered, although some candidates combined the various losses into one computation. The capital allowances for the period of cessation also caused some problems, with it not being appreciated that no WDA is given for the final period. In addition, some candidates prepared just one combined capital allowances computation (and often also a property business calculation) for the entire 16-month period of trading. This is where the 15 minutes of reading time can be well spent in planning out how to approach and layout a slightly more difficult or unusual answer. Although not computationally difficult, the question did require some prior thought.

Part (b) of the question required a calculation of the company's corporation tax liability for the first 12 month accounting period. This meant taking into account relief for available losses, including group relief. This section was often not well answered, with very few candidates appreciating that the period spanned two financial years (with different corporation tax rates). Again, making good use of the reading time would have helped here.

Part (c) of the question was also unsatisfactorily answered. It required candidates to explain how any unused losses or payments which the company had in respect of the final four-month period could have been utilised by other 75% group companies. Answers often consisted of a general discussion on the use of losses or group relief. In this case, the property business loss and an unused qualifying charitable donation could be surrendered as group relief. Also, an election could be made so that the company's capital loss was matched with a chargeable gain made elsewhere within the group.