

Examiner's report

F6 (UK) Taxation

June 2018

General comments

The F6 (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. In this report, 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.

- 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 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.

Sample Questions for Discussion

Here we take a look at two Section A questions which proved to be particularly difficult for candidates.

Example 1

Dennis has made a deliberate error on his self-assessment tax return for the tax year 2017-18.

What is the time limit for HM Revenue and Customs (HMRC) to issue a discovery assessment?

- A 5 April 2019
- B 5 April 2022
- C 5 April 2024
- D 5 April 2038

This was a straightforward administration question, requiring candidates to identify the latest date by which HMRC can raise a discovery assessment where a taxpayer has made a deliberate error in their tax return. Where deliberate error is involved, the time limit for HMRC to raise a discovery

assessment is 20 years from the end of the tax year, in this case 5 April 2038. The correct answer is therefore D.

The majority of candidates selected A, suggesting that they had confused the deadline for a raising a discovery assessment with the deadline for notifying the taxpayer of a compliance check. Option B is the basic deadline for issuing a discovery assessment, and Option C is the deadline for issuing a discovery assessment where the taxpayer has made a careless error.

Candidates are reminded to devote sufficient attention to tax administration in their revision.

Example 2

Bab Ltd has owned 80% of the ordinary share capital of Boon Ltd for many years. The two companies' results for the year ended 31 December 2017 are as follows:

	Bab Ltd £	Boon Ltd £
Trading profit/(loss)	(38,000)	36,000
Chargeable gains	7,000	4,000

What is the maximum amount of group relief which Boon Ltd can claim from Bab Ltd for the year ended 31 December 2017?

- A £38,000
- B £31,000
- C £36,000
- D £32,000

This calculative question tested candidates' knowledge of group relief. The question asked candidates to calculate the maximum amount of group relief which Boon Ltd could claim from Bab Ltd. The correct answer was A £38,000. Boon Ltd can claim group relief against its taxable total profits, in this case £40,000 (£35,000 + £4,000). Bab Ltd does not need to use its trading loss against its own profits first, so it can surrender the full amount of £38,000 to Boon Ltd.

Most candidates answered B, indicating that they may have thought that Bab Ltd had to use the loss against its chargeable gains first. Many candidates answered C, perhaps because they thought that group relief can only be set against trading income.

Group relief is an important aspect of the syllabus in respect of corporation tax, and candidates should ensure they are familiar with the rules and can apply them to a given scenario.

Section B

Section B tests candidates' knowledge on a topic in more detail than Section A, with three case questions of five two-mark objective test questions. There were a range of topics covered in the June 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 to score well. Cases will require candidates to demonstrate their knowledge of various different aspects of the particular tax in question. For example they could be asked to calculate the inheritance tax (IHT) due on a potentially exempt transfer which becomes chargeable on death in one question and to identify the IHT payment due dates and who is responsible for the payment in another. It is therefore very important for candidates to have a thorough knowledge of all taxes on the syllabus, administrative aspects.

Some key points that came out of Section B were:

- 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. F6 (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:

- Tax planning for a company's managing director/shareholder
- Residence status of an individual
- Computation of an individual's income tax liability
- Computation of a company's trading loss
- Corporation tax computations for a company

Tax planning for a company's managing director/shareholder

Where income tax figures are given for 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 is not a good use of time.

When preparing computations for two different scenarios, candidates should clearly indicate which scenario is being answered. It is much better to deal with one scenario first, then the second, rather than have a mix of computations dealing with one tax at a time.

Candidates should be very careful when deciding whether a full computation is necessary or if a tax figure can be calculated by working at the margin. If in doubt, use a full computation as these are normally not too complicated where a higher skills question is concerned.

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

Residence status of an individual

There is nothing to be gained from stating facts which have been given. For example, a question might state that a taxpayer is neither automatically not resident in the UK nor automatically resident, so obviously only UK ties need to be considered.

Candidates should be aware that residence status is considered separately for each tax year. Therefore, if a question covers two tax years, look very carefully to see if the situation is different in the second year. Normally, there will be an additional UK tie for the second year given that a taxpayer will have been in the UK for more than 90 days during the previous tax year.

Computation of an individual's 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 one-off capital allowances calculation such as $\text{£}14,800 \times 18\% \times 8/12 \times 8,000/12,000 = \text{£}1,184$ can easily be included within the main computation.

When calculating a partnership profit or loss, it is only necessary to deal with the taxpayer in question. The allocations made to the other partners are not relevant.

Practice as many computations as possible. If this is done, basic mistakes such as applying the motor car benefit rules rather than claiming capital allowances will be avoided.

Candidates should be particularly aware of recent tax changes such as property income finance costs where tax relief for 25% of such costs is now restricted to the basic rate. This is why an annual Finance Act update [article](#) is published.

Computation of a company's trading loss

When dealing with a trading loss, candidates need to be very careful that adjustments are correctly added or deducted. Treating the loss as a negative means that there is no need to change the approach from that used for a trading profit.

Candidates should make sure they understand basic tax rules. For example, there is a balancing charge if disposal proceeds within a capital allowances pool exceed the written down value brought forward. The number of marks available might well indicate that a detailed capital allowances computation cannot be correct.

Corporation tax computations for a company

When calculating chargeable gains for a corporate share disposal, be sure to check whether there is a same day purchase or a purchase during the preceding nine days.

Information for different question requirements will often be combined, and it is very important that candidates separate out which information relates to which requirement. For example, details for previous periods of trading may be given along with details for the current period. If one requirement deals with the current period with another covering previous periods, then that is how a question should be answered.

Practising specimen and [past questions](#) is essential. Working through published answers will enable candidates to see how computations should be laid out, avoiding superfluous detail.

Exam technique on CBE and paper exams

Good exam technique is vital for success in F6 (UK). Written sections at F6 (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 for a marker to see how a figure from a working fits into the main computation.

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.

When it comes to working with CBE spreadsheets, these 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.

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 F6 (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.