



Examiner's report

P6 Advanced Taxation (UK)

June 2018

General Comments

The exam was in its new format comprising wholly compulsory questions. The style of the questions has remained as in previous sittings: Section A consisting of the compulsory questions 1 and 2, worth 35 marks and 25 marks respectively, and Section B consisting of two further compulsory questions, 3 and 4, worth 20 marks each.

In general terms, those candidates who did not perform well were weak in the following areas.

- They did not spend sufficient time carefully reading the questions and – crucially - thinking before they started writing. This meant that they produced unstructured answers which, in the case of an explanatory or discursive answer, did not include sufficient relevant points and/or they wasted time providing information that had not been asked for, and in the case of a comprehensive computational answer, often led to illogical, difficult to follow computations. This is discussed further in the detailed comments below.
- They did not have sufficient, precise knowledge of the tax rules within the syllabus. This was true in respect of areas which are not part of the F6 syllabus and also some of the more fundamental rules contained in the F6 syllabus.
- Their time management was poor. There were a number of candidates who produced very comprehensive answers to two or three questions, perhaps scoring a good pass on these, but then appeared to run out of time without being able to have a reasonable attempt at their fourth question.

Candidates should pay particular attention to the following in order to maximise their chances of success in the exam in the future.

1. Know your stuff
 - Successful candidates are able to demonstrate a good level of accurate knowledge of the UK tax system.
 - This includes knowledge brought forward from the F6 syllabus.
2. Practise questions from past exams with the aim of adopting the style of the model answers, and learning how to spot 'triggers' in the question, which are there to point you towards the required answer. This should be a key part of your preparation for the exam. In particular this applies to the longer, scenario-based Section A questions.
3. Address the requirement
 - Read the requirement carefully – in the Section A questions the detailed tasks that you are to perform will be set out in one of the documents. It may be helpful to tick off the tasks as you address them. Marks are awarded only for satisfying the requirements and not for other information even if it is technically correct.
 - The requirements of each question are carefully worded in order to provide you with guidance as regards the style and content of your answers. It is very important to note the command words (calculate, explain, advise etc). Requirements to 'explain' or 'advise' require a written element to the answer, perhaps accompanied by supporting calculations, but calculations alone will not suffice. You should also pay attention to any matters which are not to be covered, as inclusion of these will not gain marks
 - Pay attention to the number of marks available – this provides you with a clear indication of the amount of time you should spend on each question part.

4. Don't provide general explanations or long introductions.
 - You should avoid just writing out parts of the question, which candidates sometimes appear to use to 'set the scene', but is not an efficient use of time.
 - If you are just asked to 'calculate', there is no need to explain what you are going to do before you do it; just get on with it – only provide explanations when you are asked to.
 - Think before you write. Then write whatever is necessary to satisfy the requirement.
 - Apply your knowledge to the facts by reference to the requirement.
5. Think before you start and manage your time
 - Ensure that you allow the correct amount of time for each question part.
 - Before you start writing, think about the issues and identify all of the points you intend to address and/or any strategy you intend to adopt to satisfy the requirement.

If you are preparing to resit the exam, think about the number of additional marks you need and identify a strategy to earn them. For example:

- Identify those areas of the syllabus where you are weakest and work to improve your knowledge in those areas. This should include any technical areas brought forward from F6 where necessary.
- Practise past exam questions in order to familiarise yourself with the style of questions that you will have to deal with. This is a vital part of your preparation for the exam.
- Ask yourself whether you could improve the way you manage your time in the exam and whether you address all of the parts of all four questions or whether you waste time addressing issues which have not been asked for.
- Make sure that you earn the professional skills marks and that you are prepared to address the ethical issues that may be examined.

Those candidates finding themselves scoring in the 40's should ensure that they read the various non-technical articles aimed at improving performance in the P6 (UK) exam, which are available on the ACCA website.

Marks available in respect of professional skills

Marks were available for professional skills in question 1. In this question candidates were required to provide a memorandum for a client file, including a fairly complex calculation of the outcome of two alternative strategies for expanding an unincorporated business. Candidates should keep two things in mind when addressing this type of requirement: Firstly, that explanations contained in the notes must be concise, but comprehensive enough to be understandable by another member of staff who may subsequently need to consult them. Secondly, the computations should be presented in a logical, structured way, such that they are easy to follow. Candidates who scored well on professional marks, structured their answer according to the matters to be addressed, made good use of appropriate subheadings, wrote concisely in short, clear paragraphs and produced well-structured computations.

Specific Comments

Question 1

This question required appropriate advice on a variety of personal tax matters, including inheritance tax, capital gains tax, income tax and value added tax (VAT) issues, together with

consideration of the procedures to be considered before taking on a new client. It was quite a challenging question, requiring a structured logical approach in order to produce a good answer. A good number of candidates did achieve this, but a significant number appeared to struggle with the detailed calculations required. The use of subheadings, taken from the issues in the manager's email, provides a useful structure in this type of question, which future candidates should consider adopting.

The first part of the question, which was worth 9 marks, required candidates to identify, explain, and correct errors made by the potential new client in their calculation of an inheritance tax liability on a lifetime gift, and calculate the implications for the recipient of having made a valid gift relief claim in relation to this asset. This type of 'correction of errors' question has been used several times in the past in Section A questions, and it was pleasing to see many candidates try to both explain the errors, and provide a revised calculation, as required. Consequently, these candidates scored well. Weaker candidates tended to rely too much on just producing the revised calculations, without adequate explanations of the reasons for the revisions, which were required in order to score a high mark on this question part. This is a challenging question type, but one which candidates should expect to appear regularly on the P6 paper. Many candidates' knowledge of capital gains tax gift relief was rather vague and very few dealt correctly with the fact that this was actually a sale at undervalue i.e. some proceeds had been received and therefore the deferred gain would be restricted. Candidates need to be familiar with the precise consequences of claiming capital gains tax reliefs such as this.

The second part of the question concerned the appraisal of two alternative strategies being considered by the potential client in relation to expanding their unincorporated business. This part was worth 17 marks and was wholly computational involving mainly income tax, and a few marks of VAT. It contained a considerable amount of detail relating to each of the strategies, and of the VAT implications, including possible partial exemption. Questions involving a series of detailed computations, such as this one, require careful reading, thinking and planning before starting to write, in order to produce a logical, easy to follow set of calculations. Lengthy computations such as this are challenging questions, with a number of different 'issues' embedded within them, such as the consideration of the impact of VAT, and in particular partial exemption, as there was here. Time spent in planning at the start ensures that candidates don't waste time with unnecessary calculations, which, in some cases were quite lengthy, but were irrelevant, so gained no marks. Also, candidates are able to recognise the point in the computation when specific aspects – such as partial exemption for VAT – need to be considered. It was clear where candidates had done such preparation; their computations were logically presented, and easy to mark. It cannot be stressed enough how vital it is to spend a few minutes reading, thinking and planning before starting to write an answer to these longer question parts.

The final part of the question required a summary of the procedures to be followed before agreeing to become tax advisers for the potential new client. This appeared to be a question for which most candidates were well prepared, and most scored well. Those that didn't tended to be too general in their comments, such as talking about the need to ensure adherence to ACCA's fundamental ethical principles, without identifying which of these principles is/are particularly relevant in this scenario. It is always important in an ethics requirement to relate your answer specifically to the (potential) client, and the scenario in the question.

Overall, candidates who prepared satisfactory answers to question 1:

- clearly addressed each of the three issues set out in the manager's email
- read the requirements carefully
- did not waste time including irrelevant material
- produced clearly laid out and labelled computations

Question 2

This question concerned various corporation tax and VAT issues for a group of companies. Each part related to a different group company and different tax aspects.

The first part of the question concerned a newly acquired, wholly owned subsidiary company, and its ability to receive a capital loss or trading loss from other group companies, and, separately, the corporation tax instalments which will fall due in the next six months.

In relation to the losses, many answers were disappointingly vague, in particular not stating whether the candidate was considering the capital loss or the trading loss in their discussion, or implying that the rules were the same for both, which is not the case. Dates were given in the question, so candidates were expected to refer to these in their answers.

The identification of the amounts and due dates for payment of the company's corporation tax instalments was, surprisingly, not well done. Virtually no candidate recognised that the final instalment for payment of a company's corporation tax liability was going to be the balance of the final corporation tax liability for the year i.e. the final liability less the three instalments paid previously, which is extremely unlikely to be the same as one quarter of the final liability, as the previous instalments have been based on estimates. A good number of candidates correctly calculated the amount of the first instalment for the subsequent short accounting period, but in both cases, application of knowledge of the due dates was weak. These must be accurately stated in order to score the marks.

The second part of the question related to the VAT implications of importing from a non-EU resident company and exporting to a EU resident company, neither of which are registered for VAT. Answers were very mixed; again several answers were very vague, and future candidates should take note of how this has been addressed in the model answer. In particular with imports, candidates must be precise as to how UK VAT will be paid/accounted for on the purchases, as obviously this is different depending whether the supplier is resident within, or outside, the EU.

The third part of the question concerned the application of two specific controlled foreign company (CFC) exemptions – the low profits exemption and low profit margin exemption. Overall, knowledge of these two exemptions was good, with a significant number of candidates scoring full, or almost full marks. The most common errors were to use the wrong figures to calculate the profit margin, and to fail to recognise that for one of the companies, no CFC charge would arise due to the UK company holding less than 25% of the shares in that company. A small number of candidates wasted time by considering other exemptions from CFC status, despite being clearly instructed in the requirement to consider just these two.

The fourth part of the question concerned the trading loss relief available to a company which qualifies for the additional 130% deduction available for qualifying research and development expenditure. Overall, this question part was quite well attempted, with the majority of candidates being able to explain the cashflow implications of the 'surrenderable loss' in this case, but in some instances candidates focused entirely on this and failed to take a broad enough approach, not considering in equal detail the 'normal' loss reliefs available to a company and their implications, in order to be able to fully discuss the factors to consider when choosing between the available reliefs. The question clearly implied that more than one relief would be available, and there were 7 marks for this requirement, so this should have prompted candidates that a broader approach was needed.

Question 3

This question concerned the capital gains tax and inheritance tax implications of a lifetime gift, and also the implications of a taxpayer moving abroad on his UK residence status, and his proposed sale of a UK asset.

The first part related to the availability of gift relief in respect of a commercial building which has previously been used in a business, but which is now being rented out. Most candidates who attempted this question part were able to identify the issues and score 2 out of the 3 possible marks. Very few candidates went on to quantify the proportion of the gain which would be eligible for relief. Candidates should remember that where dates or figures are given in a question, they are usually required to use these in their answer.

The second part of the question required advice on the maximum potential inheritance tax liability which could arise in respect of the gift of the commercial building. The majority of candidates produced a good computation, but only a minority provided the necessary supporting explanations to fully satisfy the requirement – in this case, the fact that taper relief is available to reduce an inheritance tax liability if the donor of the lifetime gift survives for at least three years. Where an explanation or justification is needed for including or omitting figures, candidates must provide this.

The third part of the question required explanation of the implications of an individual moving overseas for a few years on his UK residence status for each of those years, and the consequences for the timing of a proposed disposal for capital gains tax purposes. The majority of candidates appeared not to have read the question properly, and dived straight in to explaining the rules for temporary non-residence for capital gains tax purposes, with which they were clearly very familiar, but ignoring the need to first of all consider the individual's actual residence status by reference to the automatic rules for determining this. This meant that they restricted the number of marks which they were able to obtain. Candidates should ensure that they fully address all aspects of a requirement, not just what they perceive to be the key point, in order to score a high mark on a question.

The final part of the question concerned an explanation of the availability of entrepreneurs' relief, and the calculation of the increase in after-tax proceeds if the individual delayed selling a further business asset to a date when he would not be UK resident. Almost all candidates had identified that the temporary non-residence rules would apply, and implemented them correctly, and, it was pleasing to see, followed through the calculation to the end, quantifying the increase in after-tax proceeds, as required, and thereby scoring a high mark on this part. The main area of difficulty for

this question was imprecise knowledge of the conditions for entrepreneurs' relief, and future candidates are reminded once again of the need to be very familiar with the precise rules in respect of all the capital gains tax reliefs.

Question 4

This question concerned the receipt of a redundancy package on leaving employment, the reliefs available for an individual's share of a partnership trading loss, and the payment of contributions into a personal pension scheme.

The first part concerned the income tax implications of the receipt of a redundancy package comprising a statutory redundancy payment, an ex-gratia payment, and retention of a company-provided laptop computer. Most candidates were clearly very comfortable with the availability of the £30,000 exemption in respect of the ex-gratia payment, and the fact that this would be reduced by the amount of the statutory redundancy payment. However, relatively few appeared to realise that the statutory redundancy pay is always exempt, irrespective of this, as this statement was rarely made. The majority of candidates included the laptop computer in their calculation, but did not know how to calculate its value, being an asset transferred to an employee who has previously been taxed on the provision of the benefit under the '20% x market value rule'. Termination payments are regularly tested at P6, and should provide an opportunity for candidates to score well if they have practised these, and taken note of what has been required in previous model answers.

The second part of this question required candidates to state the loss reliefs available to a partner who has just joined a loss making partnership. On the whole, candidates scored well on this part. The main issue seen was a lack of accuracy in identifying the available reliefs. The rules relating to trading losses are frequently examined, and candidates are expected to be precise in this sort of question. Candidates would do well to invest time at the revision stage of their studies memorising the rules concerning relief for trading losses, and ensuring that they are able to recognise those rules which apply in a given scenario. In particular, they should be able to identify those which apply in certain situations only, such as the opening years of a business, as here. It was disappointing to see that a number of candidates included consideration of the relief available by carrying the loss forward, when the requirement had specifically stated that the taxpayer did not want to do this. This wasted time, particularly if the candidate then went on to consider the tax savings in the next part.

The third part of the question required a calculation of the loss available to the partner, and determination of the loss relief strategy which would provide the highest income tax saving for the taxpayer.

Those candidates who scored well on this particular part:

- adopted a structured, methodical approach to considering in turn each of the reliefs for the trading loss which they had identified in the previous part, stating the taxpayer's total income in each year, and hence being able to identify the rate of tax which would be saved.
- Didn't waste time considering irrelevant reliefs.

In order to gain a good mark in this type of question it is vital that candidates attempt past exam questions. Reading through model answers, while providing useful information, is often of limited

help in these cases; candidates need to practise the structured approach necessary to produce a good, coherent answer.

The final part of the question concerned an explanation and calculation of the maximum amount of contributions which could be paid into the taxpayer's personal pension scheme without incurring an annual allowance charge. The majority of candidates were aware of the £40,000 allowance and the ability to bring forward unused allowances. However, a significant number failed to relate their knowledge to the scenario, bringing forward several years' worth of unused allowance, despite the fact that the taxpayer had not previously been in any pension scheme, and spending a considerable amount of time calculating whether or not the maximum amount of allowance would be restricted, when a quick calculation would have revealed that the taxpayer's income fell well below the income limits. At the P6 level, general rules are rarely required; candidates will invariably be asked to apply rules to a given scenario, so they must ensure they have taken this into consideration at every stage of their answer, to avoid wasting time.