

Examiner's report

TX Taxation UK September 2018

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. 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 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

Mina's salary for the tax year 2017-18 was £68,000.

Mina's employer provided her with a loan throughout the tax year 2017-18, and this resulted in a taxable benefit of £1,500.

During the tax year 2017-18, Mina contributed £3,000 into her employer's registered occupational pension scheme. Her employer contributed a further £7,000 into the scheme.

What were Mina's earnings for the purpose of calculating the class 1 national insurance contributions (NICs) payable for the tax year 2017-18?

- A £68,000
- B £69,500
- C £72,000
- D £65,000

This question examines the meaning of earnings for the purposes of calculating class 1 NIC. The correct answer here is A (£68,000) because only Mina's salary forms part of earnings for the purposes of class 1 NIC. Earnings for this purpose do not include non-cash employment benefits or any deductions for occupational pension scheme contributions.

Answers were fairly mixed, suggesting that candidates were not prepared for this sort of question. Most candidates selected option B, which would suggest that they thought that earnings for this purpose would also include Mina's taxable benefit in respect of the beneficial loan. A number of candidates selected C, which in addition to the salary, included the employer contributions as earnings and deducted Mina's own pension contributions.

National insurance is an important part of the syllabus and candidates are advised to devote appropriate attention to it in their studies.

Example 2

Obi Ltd has trading income of £739,000 for the nine month period ended 30 September 2017.

On 1 February 2017, Obi Ltd sold a warehouse, making a chargeable gain of £100,000.

On 1 August 2017, Obi Ltd made a qualifying charitable donation of £5,000.

What is Obi Ltd's corporation tax liability for the nine month period ended 30 September 2017?

- A £158,460
- B £118,845
- C £161,240
- D £162,206

This question required candidates to calculate the corporation tax liability of a company for a short accounting period, taking into account trading income, chargeable gains and qualifying charitable donations (QCDs). The accounting period also straddles two financial years and so candidates needed to know to use two different rates for the calculation of the corporation tax liability.

The correct answer is C which is calculated as follows:

	£
Trading income	739,000
Chargeable gain	100,000
Less QCDs	(5,000)
Taxable total profits	<u>834,000</u>
Corporation tax:	
FY16 (834,000 x 20% x 3/9)	55,600
FY17 (834,000 x 19% x 6/12)	<u>105,640</u>
	<u>161,240</u>

Most candidates selected A £158,460 (834,000 x 19%), demonstrating that they knew how to calculate taxable total profits but they did not take into account the change in the corporation tax rate.

Candidates are reminded to spend time carefully reading each question and to not rush their answers to the Section A questions.

Section B

Section B tests candidates' knowledge on a topic in more detail than Section A, with three case questions consisting of five objective test questions for two marks each. There were a range of topics covered in the September 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 in order to score well. Case questions can examine a variety of different aspects of a particular tax, from recognising the VAT tax point when goods are supplied to understanding the treatment when goods and services are traded within the European Union.

Some key points that came out of Section B were:

- Read the requirement very carefully. This goes for the whole exam, but any objective test question is 'all or nothing', so it is important not to miss any important details in a scenario.
- Cover the whole syllabus. TX-UK has a large syllabus which can be daunting. Overall candidates performed well in these questions in September so they appear to have covered the syllabus well, and future candidates should also aim to do so.

Section C

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

- Tax planning when purchasing a property that is to be let out
- Computation of an individual's taxable income
- Self-assessment for individuals
- Corporate accounting periods
- Corporate residence status
- Computation of a company's corporation tax liability
- Computation of a company's taxable total profits

Tax planning when purchasing a property that is to be let out

Where a tax figure is given for one of the scenarios, candidates should never attempt to recalculate this figure for themselves. All this does is use up valuable time and there are no marks available for calculations which are provided in the scenario. This point has been made several times in recent examiner reports and candidates are reminded it is never necessary to recalculate a tax figure given in a question.

If a conclusion is required where two scenarios are being assessed, it simply needs to be a calculation of the tax difference between the two scenarios. There is no need for a detailed explanation, which again is not a good use of time.

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.

Where a question contains a requirement for just one-mark, then clearly a detailed answer is not expected. Just one or two sentences are all that is needed.

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 and candidates should familiarise themselves with the relevant Finance Act article for the exam session they are sitting.

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

Computation of an individual's taxable income

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 car benefit calculation such as $\text{£}32,800 \times 9\% \times 9/12 = \text{£}2,214$ 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 claiming capital allowances rather than applying the motor car benefit rules can be avoided.

Candidates should appreciate that if expenses are paid privately by an employee, then they cannot possibly be taxable benefits – instead they will be a potential deduction against taxable income.

Being aware of which benefits are exempt, such as a beneficial loan not exceeding £10,000, will avoid wasting time on unnecessary calculations.

Reading and understanding a question's requirements will avoid spending a lot of time calculating an income tax liability when it is not needed.

Self-assessment for individuals

Where a self-assessment deadline is required, then candidates can either state the actual date (such as 31 January 2020) or provide an explanation (such as 12 months from the latest (electronic) filing date for the tax year in question).

Answers for TX-UK need to be precise, so if, for example, an explanation is required of how interest will be charged should additional tax become payable following an amendment to a self-assessment tax return, then an answer should state that this is from the original due date to the date that the additional tax is paid. A general discussion of how HMRC charges interest is not sufficient.

As already mentioned, detailed answers are not required where just a few marks are involved. So if required to explain the possible reasons why HMRC might carry out a compliance check, simply stating a suspicion that income has been undeclared or deductions have been incorrectly claimed is sufficient.

Corporate accounting periods

When considering accounting periods, it is very important not to confuse the corporate and unincorporated business rules. Applying the unincorporated business opening year rules to a limited company will obviously not achieve many marks.

If asked to identify a company's accounting periods throughout a given period, then candidates should make sure that all relevant periods are stated.

It does not create a good impression if there are gaps between the accounting periods stated by a candidate, or if a stated period ends before it has started.

Corporate residence status

Again, candidates should be careful not to confuse the rules for companies with those applicable to individuals. If a limited company is incorporated in the UK, then nothing else is relevant. So, for example, if the majority of a UK incorporated company's director/shareholders move overseas, candidates should just state that this does not have any impact on the company's residence status.

Computation of a company's corporation tax liability

When making adjustments to trading profit, candidates need to be very careful that adjustments are correctly added or deducted depending on the adjustment.

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. This is why question practice is so important.

Computation of a company's taxable total profits

When calculating chargeable gains for a corporate share disposal, then carefully check the dates that have been given. If a rights issue takes place in the month of purchase, then there is no need to index prior to adding the new shares into the share pool.

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 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 – 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.

CBE spreadsheets 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.

If sitting PBE, candidates should note that it is not necessary to show detailed, well laid out, workings for the OT questions and this just uses up valuable time. 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.

CBE specimen exams can be found [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.