Answers

Section C *Marks*

31 (a) (1) The balancing payment for 2015–16 due on 31 January 2017 cannot be reduced. ½

(2) A claim can be made to reduce the payment on account for 2016–17 due on 31 January 2017 by £5,040:

	£	Marks
Current POA (27,600 + 4,204) x 50%	15,902	
Revised POA (18,000 + 3,724) x 50%	(10,862)	
Reduction	5,040	1½
		2

(b)

	£	£	Marks
Current CGT liability		12,980	½
Revised CGT liability			
Proceeds not reinvested (210,000 – 164,000)	46,000		1
Annual exempt amount	(11,100)		1
	34,900		
CGT: 34,900 at 20%		(6,980)	½
Reduction		6,000	
			3

Tutorial note: *Equivalent marks will be awarded if the reduction is alternatively calculated as 30,000 (76,000 – (210,000 – 164,000)) at 20% = £6,000.*

(c) (1) The basic tax point for goods is the date when they are made available to the customer, which in the case of Zhi's sale is 12 December 2016. ½

(2) An invoice date of 1 February 2017 will not affect this because the invoice will not have been issued within 14 days of the basic tax point. 1

(3) Zhi therefore cannot reduce the amount of VAT payable on 7 February 2017. ½

2

(d)

	£	Marks
First employee		
PAYE (1,500 at 20%)	300	½
NIC – Employee (1,500 at 12%)	180	
– Employer (1,500 at 13·8%)	207	½
Second employee		
PAYE (5,000 at 40%)	2,000	½
NIC – Employee (5,000 at 2%)	100	½
– Employer (5,000 at 13·8%)	690	½
Reduction	3,477	

The postponed PAYE and NICs of £3,477 will be payable one month later on 22 February 2017. ½

3

10

Marks

32 (a) Petula – Taxable income 2016–17

	£	
Employment income		
Salary	230,000	½
Bonuses (18,600 + 22,400)	41,000	1
Mileage allowance (working 1)	8,350	W1
Pension contributions	0	½
	279,350	
Professional subscription	(630)	½
Golf club membership	0	½
	278,720	
Property income (working 2)	11,340	W2
Savings income (250,000 at 3% x 4/12)	2,500	2
Interest paid	(140)	1
	292,420	
Personal allowance	0	½
Taxable income	292,420	

Tutorial notes:

(1) *The bonus of £21,200 will have been treated as being received during 2015–16 because Petula became entitled to it during that tax year.*

(2) *Under the accrued income scheme, Petula must include the accrued interest from the gilts as savings income for 2016–17, even though she has not received any actual interest.*

(3) *No personal allowance is available because Petula's adjusted net income of £292,420 exceeds £122,000.*

Working 1 – Mileage allowance

	£	
Reimbursement (26,000 at 60p)	15,600	½
Tax free amount		
10,000 miles at 45p	(4,500)	½
11,000 miles at 25p	(2,750)	½
Taxable benefit	8,350	

Working 2 – Property income

	£	
Rent receivable	12,000	½
Replacement furniture relief		
Washing machine	(420)	1
Dishwasher	0	1
Other expenses	(1,640)	½
	9,940	
Furnished room (8,900 – 7,500)	1,400	1
Property income	11,340	
		12

Tutorial notes:

(1) *No relief is given for that part of the cost of the washer-dryer which represents an improvement over the original washing machine. Relief is therefore restricted to the cost of a similar washing machine.*

(2) *No relief is available for the cost of the dishwasher because this is an initial cost rather than the cost of a replacement.*

(3) *Claiming rent-a-room relief in respect of the furnished room is more beneficial than the normal basis of assessment (8,900 – 2,890 = £6,010).*

				Marks

(b) Petula has unused pension annual allowances of £20,000 available to carry forward to the tax year 2017–18:

Tax year	Annual allowance	Contribution	Carried forward	
	£	£	£	
2016–17	10,000	30,000	0	2
2015–16	40,000	30,000	10,000	½
2014–15	40,000	30,000	10,000	½
			20,000	
				3
				15

Tutorial notes:

(1) *Petula's adjusted income for the tax year 2016–17 exceeds £210,000, so she is only entitled to the minimum tapered annual allowance of £10,000 for this year.*

(2) *The pension contribution of £30,000 for 2016–17 has utilised all of Petula's annual allowance of £10,000 for 2016–17 and also the £20,000 (50,000 – 330,000) of unused annual allowance from 2013–14.*

33 (a) Online Ltd – Corporation tax computation for the year ended 31 March 2017

	£	
Operating profit	896,700	
Depreciation	21,660	½
Amortisation	9,000	½
Deduction for lease premium (working 1)	(7,380)	W1
Capital allowances (working 2)	(9,824)	W2
Trading profit	910,156	
Chargeable gain (working 3)	59,967	W3
	970,123	
Property business loss brought forward	(12,500)	1
Qualifying charitable donations	(6,800)	½
Taxable total profits	950,823	

Working 1 – Deduction for lease premium

	£	
Premium paid	90,000	
Less: 90,000 x 2% x (10 – 1)	(16,200)	
Amount assessed on the landlord	73,800	1
Deduction (73,800/10)	7,380	1

Working 2 – Capital allowances

	Main pool	Special rate pool	Allowances	
	£	£	£	
WDV brought forward	56,700	12,400		½
Addition – Motor car	13,700			1
Disposals – Motor car	(17,200)			1
– Pool		(9,300)		½
	53,200	3,100		
WDA – 18%	(9,576)		9,576	½
WDA – 8%		(248)	248	1
WDV carried forward	43,624	2,852		
Total allowances			9,824	

Tutorial notes:

(1) *The motor car purchased has CO_2 emissions between 76 and 130 grams per kilometre, and therefore qualifies for writing down allowances at the rate of 18%.*

Marks

(2) The proceeds for the motor car which was sold are restricted to the original cost figure of £17,200.

(3) Although all of the items included in the special rate pool have been sold, there is no balancing allowance because the business has not ceased.

Working 3 – Chargeable gain

	£	
Disposal proceeds	90,600	½
Indexed cost (working 4)	(25,933)	W4
	64,667	
Capital loss brought forward	(4,700)	½
Chargeable gain	59,967	

Working 4 – Share pool

	Number	Indexed cost £	
Purchase June 2010	40,000	49,300	½
Indexation to October 2013 (49,300 x 0·124)		6,113	½
		55,413	
Disposal October 2013 (55,413 x 22,000/40,000)	(22,000)	(30,477)	1
	18,000	24,936	
Indexation to March 2017 (24,936 x 0·040)		997	½
		25,933	
Disposal March 2017	(18,000)	(25,933)	½
			13

(b) (1) The profit threshold for establishing whether Online Ltd is a large company will be reduced to £750,000 (1,500,000/2), so it is likely that the company's corporation tax will have to be paid by quarterly instalments. 1½

(2) The dividends received from Offline Ltd, being group dividends, will not form part of Online Ltd's profits. ½

2

15

Additional marking guide for section C		*Marks available*	*Marks awarded*
31	Zhi		
	(a) Payments on account	2	
	(b) Capital gains tax	3	
	(c) Value added tax	2	
	(d) PAYE	3	
	Total marks	**10**	
32	Petula		
	(a) Salary and bonus	1½	
	Mileage allowance	1½	
	Property income	3	
	Furnished room	1	
	Savings income	2	
	Other items	3	
		12	
	(b) Unused AEs	3	
	Total marks	**15**	
33	Online Ltd		
	(a) Lease deduction	2½	
	Capital allowances	4½	
	Chargeable gain	4	
	Other items	2	
		13	
	(b) Acquisition	2	
	Total marks	**15**	

F6 Examiner's commentary on March/June 2017sample questions

This commentary has been written to accompany the published sample questions and answers and is written based on the observations of markers. The aim is to provide constructive guidance for future candidates and their tutors, giving insight into what the marking team is looking for, and flagging pitfalls encountered by candidates who sat these questions.

Question 31

This 10 mark question had a focus on higher skills and involved Zhi who, due to cash flow problems, wanted to reduce or postpone various tax payments becoming due over the next two months (today's date being given as 15 December 2016).

Part (a) for 2 marks required a calculation of the amount by which Zhi could claim to reduce the self-assessment income tax and national insurance contributions due for payment on 31 January 2017 without there being any possibility of incurring interest or penalties. This section was not very well answered and was not attempted by some candidates. Essentially, all that candidates had to do was select the two relevant tax years (out of the three provided), deduct one set of figures from the other, and divide by two.

Part (b) for 3 marks required candidates to calculate the amount by which Zhi's capital gains tax liability due for payment on 31 January 2017 would be reduced if he made a claim for rollover relief. Zhi had sold a freehold office building for £210,000, having purchased a new freehold warehouse for £164,000. This was the only section of the question which was consistently well answered. One particular issue, however, was that some candidates worked out the current capital gains tax liability (prior to the rollover relief claim) despite this being provided. Carefully noting which information has been provided in the question will avoid time being wasted in this manner.

Part (c) for 2 marks required candidates to explain whether Zhi could reduce the amount of VAT payable for the quarter ended 31 December 2016 by not issuing a sales invoice for a credit sale (made on 12 December 2016) until 1 February 2017. The customer was not expected to pay until 28 February 2017. Whether or not candidates did well in this question depended on them realising that 1 February 2017 was more than 14 days after 12 December 2016. This being the case, postponing the sales invoice would not affect the basic tax point. Candidates should appreciate that a suggested tax planning strategy might not necessarily be effective, and they need to have the courage to base their answer on this conclusion if led there following the application of basic principles. However, some candidates either did not read the question carefully or chose to answer a question they would have preferred to have been asked, and based their answer on the amount of VAT which could be postponed.

Part (d) for 3 marks required a calculation of the amount by which Zhi's PAYE and NICs due for the tax month ending 5 January 2017 would be reduced if he delayed the payment of employee bonuses until 10 January 2017, stating when the postponed amount would be payable. The first employee had an annual salary of £20,000 and was to be paid a bonus of £1,500. The second employee had an annual salary of £55,000 and was to be paid a bonus of £5,000. There were some good answers to this section of the question. However, only a few candidates appreciated that by far the quickest and easiest way to calculate the tax reductions was to work at the margin - rather than producing full before and after tax computations. Of course it was also important to realise that the first employee was a basic rate taxpayer, subject to employee national insurance contributions at 12%, whereas the second employee was a higher rate taxpayer and only subject to employee national insurance contributions at 2%.

Question 32

The income tax question involved Petula, who was employed throughout the tax year 2017-18 by Downtown plc. Her employment package included bonuses, a mileage allowance (for both business and private journeys) and an employer pension scheme contribution. Petula personally paid for the cost of subscriptions and interest on a loan taken out to purchase a computer for use in her employment. She also received property income, rent from the letting of a furnished room in her main residence and savings income (interest from gilts taxed under the accrued income scheme).

Part (a) for 12 marks required candidates to calculate Petula's taxable income for the tax year 2016-17. This section was very well answered, and there were many perfect answers. However, the following points should be noted when answering this style of question:

- If a question requires just a calculation of taxable income, then that is where candidates should stop. Calculating the income tax liability wastes valuable time.

- As stated in the requirements, candidates should always clearly indicate (by the use of a zero) any items which are not taxable or deductible – such as the employer pension scheme contribution and the disallowable subscription.

- Candidates should think carefully about which workings can be included as one-line calculations within the main taxable income computation, and which need their own separate working. The only aspects which warranted separate workings here were the mileage allowance and property income. These workings should always have a heading or be obviously identifiable. Just referencing adjustments to the bullet list numbers used in the question is not good exam technique.

- The use of abbreviated numbers, such as 15.6k instead of 15,600 for the reimbursed mileage, should be avoided.

- With a computation containing both additions and deductions, candidates should be very careful to indicate which is which. A single column approach with deductions shown in brackets avoids any confusion.

- Where a result is obvious, such as no personal allowance being available (because the adjusted net income of £292,420 exceeded £122,000), all that is needed is a zero entry. There is no need for an explanation or a calculation of the reduction to nil.

- Candidates need to appreciate that each source of income is self-contained. It is not correct to show all the receipts from each source first (such as rent receivable), and then all the various expenses lumped together (such as property income deductions). With a separate working for property income, just the one figure for property income should then be included in the main taxable income computation.

Part (b) for 3 marks required candidates to advise Petula of the total amount of her unused pension annual allowances which were available to carry forward to the tax year 2017-18. Downtown plc had contributed £30,000 each year into the company's occupational pension scheme on Petula's behalf, but Petula had never personally made any pension contributions.

Although most candidates scored some marks for this section, few achieved full marks. There were three separate aspects which had to be taken into account:

- The tapering of the annual allowance to the minimum of £10,000 for the tax year 2016-17 because Petula's income exceeded £210,000 (as for the personal allowance in part (a), this result was obvious, so there was no need for an explanation or a calculation).

- The three-year restriction for the carry forward of unused allowances.

- The fact that Downtown plc's pension contributions utilised £30,000 of the annual allowance each year. This caused confusion in the tax year 2016-17 where the excess contribution of £20,000 was covered by the £20,000 (50,000 – 30,000) of unused annual allowance from the tax year 2013-14.

The three marks available for this section should have been a good indication as to the complexity of the requirement.

Question 33

The corporation tax question involved Online Ltd.

Part (a) for 13 marks required candidates to calculate Online Ltd's taxable total profits for the year ended 31 March 2017. This involved adjusting for depreciation and amortisation, calculating the available deduction for a lease premium, a capital allowances computation, a chargeable gain (the entire shareholding in a quoted company was disposed of following a previous share disposal) and a qualifying charitable donation. It was also necessary to take account of brought forward capital and property business losses.

This section was well answered. Surprisingly, the one aspect which consistently caused difficulty was the qualifying charitable donation. Many candidates added this back prior to deducting it, with others grossing up the deduction. Also, it is important that candidates know basic tax rules. Even though all of the items included in the capital allowances special rate pool had been sold, there was no balancing allowance because Online Ltd's trade did not cease.

This was another computation where candidates needed to think carefully about where to show workings. In this case, the deduction for the lease premium, capital allowances and the chargeable gain warranted separate workings. It was not a good idea for candidates to attempt a short-cut approach to any of these workings. As regards the chargeable gain, quite a few candidates included the gain from the disposal made three years previously. This shows just how much care needs to be taken over dates.

Part (b) for 3 marks asked for an explanation as to how the planned acquisition of a 60% shareholding in another company, Offline Ltd, would affect the calculation of Online Ltd's corporation tax liability in future years.

Many candidates appreciated that acquiring a 51% group company would mean that the profit threshold for establishing whether Online Ltd is a large company would be reduced to £750,000 (1,500,000/2). It would therefore be likely that the company's corporation tax would in future be payable by quarterly instalments. Having established this point, there was no need to then go on and explain quarterly instalments in detail. If such detail was needed, then this would have been made clear in the requirement. For some candidates, this was another example of where they wanted to answer the question that would have preferred had been set – in this case, explaining why the reliefs available with a 75% group relationship were not available with just a 60% shareholding.

Few candidates correctly stated that the dividends received from Offline Ltd, being group dividends, would not form part of Online Ltd's profits when establishing its large company status.