

# Examiner's report

F6 (UK) Taxation  
June 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. This is the first examiner's report since the introduction of the new exam format and question types. The following paragraphs report on each section and focus on some of the key learning points.

## Specific Comments

### Section A

It was very pleasing to see that almost all candidates attempted all of the questions. Candidates preparing for the next examination of F6 are advised to work through the specimen paper 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 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

#### Example 1

For the year ended 30 November 2014, Mixiness Ltd has taxable total profits of £1,380,000 and franked investment income (FII) of £240,000. Mixiness Ltd does not have any associated companies.

What is Mixiness Ltd's corporation tax liability for the year ended 30 November 2014?

- A £351,000
- B £299,000
- C £308,200
- D £289,800

This question was a fairly basic test of the ability to calculate a company's corporation tax liability where there has been a change in the rate of tax. The correct answer was:

	<b>£</b>
(1,380,000 x 4/12) at 23%	105,800
(1,380,000 x 8/12) at 21%	193,200
	<hr style="width: 100%;"/>
	299,000
	<hr style="width: 100%;"/>

Unfortunately, the vast majority of candidates ignored the change in rate and therefore calculated corporation tax as £289,800 (1,380,000 at 21%). The other two answer options were based on inclusion of FII and an incorrect year-split:

	<b>£</b>
(1,620,000 x 4/12) at 23%	124,200
(1,620,000 x 8/12) at 21%	226,800



	351,000
	£
(1,380,000 x 8/12) at 23%	211,600
(1,380,000 x 4/12) at 21%	96,600
	308,200

### Example 2

Chan died on 8 December 2014, having made a lifetime cash gift of £500,000 to a trust on 16 October 2013. Chan paid the inheritance tax arising from this gift.

Who will be responsible for paying the additional inheritance tax arising from the gift made to the trust as a result of Chan's death, and when will this be due?

- A The trustees on 30 June 2015
- B The personal representatives of Chan's estate on 8 June 2015
- C The personal representatives of Chan's estate on 30 June 2015
- D The trustees on 8 June 2015

This question tested knowledge of when IHT will be payable and by whom. The correct answer was the trustees on 30 June 2015, which is six months following the month of death. More candidates selected this option than any of the others, but options C and D were both popular choices. This is fairly basic knowledge, and it is the type of question which should represent a very easy (and quick) two marks.

## Section B

### Question One

Part (a) for 2 marks required candidates to explain why it is important to differentiate between potentially exempt transfers and chargeable lifetime transfers for inheritance tax purposes. This section was generally very well answered, although candidates are advised that where a requirement is for just 2 marks a half-page answer is not expected.

Part (b) for 8 marks involved Zoe who died on 17 February 2015, having made two lifetime gifts. The first gift, made on 7 March 2010, was a cash gift of £270,000 to her son as a wedding gift when he got married. The second gift, on 21 June 2010, was a cash gift of £620,000 to a trust, with Zoe paying the inheritance tax arising from the gift. The requirement was to calculate the additional inheritance tax which was payable in respect of the gift made to the trust as a result of Zoe's death. There were many perfect answers to his section. The key point was realising that at the time the chargeable lifetime transfer (the gift of £620,000) was made, it would not have been known whether the potentially exempt transfer (the gift of £270,000) would become chargeable, and that the husband's unused nil rate band would be claimed (this is done on death) – so both should have initially been ignored.

### Question Two

Part (a) for 2 marks required candidates to explain how the indexation allowance can be used when a company makes a capital loss, or where the indexation allowance is greater than a company's unindexed gain. All that was required here was a very short statement to the effect that the indexation allowance cannot increase or create a



capital loss, but many candidates produced half-page explanations of everything to do with indexation and the use of capital losses.

Part (b) for 8 marks, involved Luna Ltd which had two transactions in shares during the year ended 31 March 2015. The first transaction was the sale of Luna Ltd's entire shareholding of £1 ordinary shares in Pluto plc. Luna Ltd had originally purchased 16,000 shares in Pluto plc on 14 June 2008, having sold 10,000 shares on 22 May 2010. The second transaction was when Luna Ltd's shareholding in Asteroid plc was taken over by Comet plc. Under the terms of the takeover, for each of its £1 ordinary shares in Asteroid plc, Luna Ltd received cash plus £1 ordinary shares in Comet plc. The requirement was to calculate the chargeable gain arising from each of Luna Ltd's transactions in shares during the year ended 31 March 2015. Answers to this section were very mixed. There were many good answers, but other candidates struggled with the workings of the share pool, and the basis of allocating the indexed cost following a takeover. This type of question is where revision question practice is essential, since it will mean that the various rules are understood and also that answers can be laid out as efficiently as possible. There is a standard approach to laying out the workings for a share pool, and candidates are advised to follow this to save confusion.

### **Question Three**

This 10-mark question involved Fergus who is currently self-employed. His total income tax liability and national insurance contributions for 2014-15 if he continues to trade on a self-employed basis were provided. Fergus is considering incorporating his business on 6 April 2014, with the forecast taxable total profits of the new limited company for the year ended 5 April 2015 being £100,000. Fergus will pay himself gross director's remuneration of £18,000 and net dividends of £40,000, with the balance of the profits remaining undrawn within the new company. Candidates were required to determine whether or not there will be an overall saving of tax and national insurance contributions for the year ended 2015 if Fergus incorporates his business on 6 April 2014. This question caused the most difficulty for many candidates, although a careful read through would have shown that most of the calculations were quite straightforward. One particular problem was that some candidates did not read the scenario carefully, so seemed not to realise that they had been given one side of the answer – the total income tax liability and national insurance contributions for the current self-employed status. They therefore wasted a lot of time using this figure to calculate an income tax liability and national insurance contributions. Some other candidates got very confused and combined their income tax and corporation tax computations into one calculation. However, there were also many very good answers.

### **Question Four**

This value added tax (VAT) question involved Zim who has been registered for VAT since 1 April 2005.

Part (a) for 6 marks required candidates to calculate the amount of VAT payable by Zim for the year ended 31 March 2015. He has (1) sales invoices, including invoices in respect of zero-rated sales, (2) two impairment losses, (3) purchase invoices, including invoices in respect of zero-rated purchases, (4) rental payments, including the early payment of rent for April 2015, (5) the cost of mobile telephone calls, of which 40% related to private calls, and (6) expenditure on entertaining customers, including overseas customers. This section was reasonably well answered. A number of candidates did not appreciate that 20/120ths was applicable in every instance – rather than 20%.

Part (b) for 2 marks required candidates to explain why Zim will be permitted to use the VAT flat rate scheme from 1 April 2015, and to state the circumstances in which he will have to leave the scheme. Although there were a number of good answers to this section, many candidates discussed VAT registration despite Zim already being registered.

Part (c) for 2 marks required an explanation of whether or not it would have been beneficial for Zim to have used the VAT flat rate scheme for the year ended 31 March 2015. Although just for 2 marks, some candidates



wasted a lot of time by applying the flat rate to every output and input – it should have been obvious that such a lengthy answer would not be required for only 2 marks. However, there were also many perfect answers.

### Question Five

This corporation tax question involved Retro Ltd which has made a trading loss for the year ended 31 March 2015.

Part (a) for 9 marks required candidates to calculate Retro Ltd's tax adjusted trading loss for the year ended 31 March 2015. This involved a detailed capital allowance computation. Most candidates had little difficulty with this section. One poor practice was the use of notes and explanations. It was a simple matter, as per the model answer, to just list all the items of expenditure (and show whether or not an adjustment was required), so the use of notes (such as for the gifts and donations) was completely unnecessary and against the guidance given in the note to the requirement. Since the requirement was for a calculation, explanations are not required, and result in wasted time. As regards the capital allowances, many candidates did not appreciate that the delivery van qualified for the 100% annual investment allowance – instead including it in the special rate pool.

Part (b) for 4 marks required a calculation of Retro Ltd's taxable total profits for the year ended 31 August 2013 and for the seven-month period ended 31 March 2014. This was on the assumption that the company claims relief for its trading loss as early as possible. There were many perfect answers to this section, although disappointingly a few candidates tried to time-apportion profits using the opening year rules.

Part (c) for 2 marks required candidates to identify the amount of unrelieved trading loss which Retro Ltd will have at 31 March 2015, and to state how this can be relieved. This section caused few problems, although many candidates did not mention that the carry forward would be against the first available profits.

### Question Six

This income tax question involved Wai who is employed as a sales manager by Qaz plc.

Part (a) for 12 marks required candidates to calculate Wai's taxable income for 2014-15. In addition to her salary, Wai (1) received bonus payments from Qaz plc, (2) was reimbursed by Qaz plc at the rate of 55p per mile during the period 6 April to 31 August 2014 for using her private motor car for both private and business journeys, (3) was provided with a company motor car during the period 1 September 2014 to 5 April 2015, (4) received a daily allowance of £10 to cover the cost of personal incidental expenses when she spent ten nights overseas on company business, (5) had the use of two mobile telephones throughout 2014-15, and (6) was provided with living accommodation throughout 2014-15 - Qaz plc had purchased the property on 1 June 2011, making subsequent improvements to the property during October 2011 and again during August 2013. This section was generally very well answered. Surprisingly, the aspect that caused the biggest problem was the salary, because many candidates did not appreciate that it was necessary to calculate an annual figure. With calculations such as those for the mileage allowance, candidates are advised to study and replicate the layout followed in model answers rather than attempting their own style of short-cut. It is also a very poor approach to simply refer to a question note when answering, such as (5) instead of incidental expenses.

Part (b) for 3 marks required candidates to briefly outline the information to be included in PAYE forms P60 and P11D, and state the dates by which they should have been provided to Wai for 2014-15. Many candidates found this section difficult, and often based their answers on self-assessment tax return information or PAYE form P45. One clue should have been that the question said 'provided to Wai', so clearly a tax return could not be relevant.