

## **ATT November 2022**

### **Paper 1: Personal Taxation**

#### **Examiners' report**

#### **Part I**

##### **Question 1**

Generally reasonably well answered, but surprisingly few earned full marks. Most common error being the non-tax one that his bike ride involved a total of 30 miles on relevant days, not 15.

##### **Question 2**

Well answered.

##### **Question 3**

Too many students answered this generically rather than applying their knowledge to the specific individuals, and their circumstances, mentioned in the question.

##### **Question 4**

Well answered, the most common mistake being not recognising that the cessation dates for the payment of Class 2 and Class 4 NICs differ.

##### **Question 5**

Reasonably well answered and the better performing candidates ensured that they applied their knowledge of the FHL rules to the fact pattern in the question.

##### **Question 6**

Surprisingly well answered.

##### **Question 7**

Most candidates recognised that the dilution in Cornelius's shareholding meant he no longer qualified for BADR and that it was possible to make an election for a deemed disposal and reacquisition. Fewer mentioned the further election to defer the deemed gain until actual disposal of the shares. The marks that were generally not achieved were those in relation to the conditions that need to be met to be able to make those elections.

##### **Question 8**

The most common error related to the £50,000 enhancement expenditure and in whose CGT calculation it should be deducted.

##### **Question 9**

Too many candidates referred to penalties for the late payment of payments on account and the majority of candidates who mentioned the £10/day penalties (which most did) assumed the penalty would be £900, rather than actually restricting it to the number of days for which the return was more than 3 months late.

##### **Question 10**

Candidates were, understandably, better at identifying that Neil was connected with Justin than that he was connected with Helen. I got the feeling that a sizeable number of candidates simply assumed that, as he was connected with Justine, "good" exam technique was to assume he wasn't connected with Helen.

**Question 11**

Not very well answered. Many candidates thought it was possible to treat the loss arising from the negligible value claim as arising in the 2019/20 tax year and relieve part of it against the gain of that year, after relief had been given for that year's annual exemption, and carry the remainder of the loss forwards to be relieved in later years.

**Question 12**

Generally well answered. Probably the question on which the highest number of candidates scored full marks.

**Part II**

**Question 13**

Overall this was a well answered question by a majority of candidates, with some really excellent answers. Most realised straight away that as a Scottish taxpayer, they needed to apply the Scottish rates of income tax to the non-savings income.

Candidates are reminded to comment on all aspects, with some just ignoring the Premium bond winnings and so missing out on that half mark. You cannot score marks by not commenting, even though we suspect most candidates who didn't comment probably knew it was exempt from income tax.

The best candidates realised that the one month's rent fell into 2022/23 under the cash basis and commented accordingly. Quite a number of candidates still struggle to know what to do with the mortgage interest.

A fair few candidates read it as being EIS and not SEIS, thereby getting the wrong tax reducer.

It was surprising how some candidates thought the dividend foregone should actually be deducted from the cash dividend received. Worryingly, some also thought the garage was an allowable expense to set against the rental income. Quite a few candidates were confused both where the trust income should go and what rate they should be grossed up by.

**Question 14**

This question involved writing an email to a client and considering three distinct parts.

Firstly providing an explanation of the capital gains tax consequences of making gifts of assets to his nieces. This required the consideration of the gift relief provisions and the calculation of the capital gains tax payable where gift relief is not available.

The second part was a written part requiring an explanation of the difference between owning property as tenants in common or as joint tenants.

Finally, the last part required an explanation of the chargeable gains arising on the takeover of a company in which the client owns shares.

The vast majority of candidates attempted this question but unfortunately many did not score well.

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Regrettably, in Part 1, far too many candidates demonstrated that they did not understand which assets are eligible for gift relief and how the relief works. Answers to Part 2 either delivered a 'text book' answer, or no answer was provided. Similarly, Part 3 was either very well answered or not attempted at all.

Part 1

This part involved the gift of an investment property to one niece and an antique diamond necklace and some unquoted ordinary shares to another niece. The requirement was to explain the CGT implications, with supporting calculations.

Many candidates failed to give explanations and merely presented computations, thereby significantly reducing their chances of scoring highly on this part.

Common errors included:

- Not presenting the answer in the form of an email to the client, thereby losing an easy mark
- Stating (sometimes at great length) that nieces are connected persons and the consequences of that fact, which were not relevant
- Not identifying the correct tax year of assessment for the gains
- Not reading the question carefully in respect of the cost of the investment property, which the question clearly states included the legal and professional fees of acquisition
  - many misread this information and effectively deducted the legal fees twice, or
  - incorrectly decided they were not allowable
- Deducting the full cost of acquisition, rather than taking 50%
- Incorrectly deducting 50% of the selling expenses rather than all of them (as they all relate to the part disposed of)
- Thinking the antique was an exempt asset
- Not mentioning or deducting the annual exempt amount and not stating that it would be given against the residential property gain in preference to the chargeable gain on the necklace
- Mistakenly giving gift relief on the investment property and/or the necklace
- Not mentioning that a gift relief claim is a joint election, and either not giving the due date for making the election or getting the date wrong
- Stating the wrong rate of tax applicable to the chargeable gains, even though the question clearly states the client is an additional rate taxpayer
- Many talked about the implications of the gifts for the recipient of the gift, which gained no credit, as the requirement was just to advise the donor, Jake, of the implications for him

Part 2

This part involved explaining the implications of the legal terms 'tenants in common' and 'joint tenants'. Many candidates scored full marks or very few/none.

Despite this part being part of the email to Jake, however, many wrote this as an independent part and did not personalise the answer to the scenario given in the question.

A few gave an explanation of both the English definitions and the Scottish variant terms, which would have unnecessarily wasted time in the examination.

Part 3

This part involved an explanation of the implications of a takeover and calculation of the chargeable gains arising.

Answers to this part tended to be extreme. For those that answered this part, many very good attempts were received, but many others did not know the rules in sufficient detail or did not attempt this part at all.

Common errors included:

- Incorrectly calculating the value of the consideration received for the loan stock and the shares in Tanner Ltd
- Incorrectly allocating the original cost of the Farrier Ltd shares to the constituent parts of the takeover consideration

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- Not identifying the correct tax year of assessment for the gains
- Unnecessarily calculating the capital gains tax on the gain relating to the cash consideration, where just the chargeable gain was required
- Stating that the gain on the loan stock was chargeable, and in some cases the gain on the shares
- Not stating the base cost of the new shares carried forward

**Question 15**

This question was very poorly answered by all but the best candidates.

It was quite obvious that candidates knew more about the income tax implications from EIS, given a lot wrote about income tax reliefs, which was nothing to do with the question and so no marks were available.

A lot commented on what would happen to Alum Ltd shares when eventually sold, even though the whole point was the EIS CGT deferral available on one of the investments. If candidates did realise, a lot thought both investments were available for deferral and weren't aware of the time limits.

Most realised the disposal of Ploot Ltd was a chargeable event that led to a gain coming back into charge, but a lot struggled to know what the amount of that gain was.

Even if candidates didn't know the answer to the majority of the question, the better candidates would still state things that got easy marks, such as putting in the annual exemption and giving the due date for payment of CGT.

**Question 16**

Candidates performed surprisingly well on this question with most achieving at least 50% of the marks. A few candidates failed to attempt this question having failed to attempt or scoring poorly on previous part II questions, so this was not a reflection on the question itself. Most candidates identified that the remittance basis was appropriate and the main points relating to that however some spent time analysing Pierre's residence status when this was clear from the facts provided. Most were able to deal with the remittance basis charge, but some candidates lost easy marks for not mentioning deemed domicile and its impact. Areas that were less well answered were the requirement to gross up the foreign income remitted/subject to the RBC, nominating income for the RBC and that this income would not then be charged again on being remitted into the UK. Failing to mention the treatment under the arising basis lost easy marks. Some candidates mentioned the avoidance of mixed funds by opening a new account however this was not appropriate as by the time the advice was sought Pierre was already resident and had received dividends in the French Bank account that would be subjected to the remittance basis. Similarly clean capital was not therefore in point.

**Part I**

**Question 1**

Question 1 was generally well answered. The only problem seemed to be the figure against which the £5,000 profit for 2021/22 should be compared as some candidates used the higher profit from the previous four years or the total profit for the previous four years.

**Question 2**

A few candidates failed to answer this question. Where the question was answered, some candidates noted that interest was due on the first payment, but only a penalty on the second. The assumption seemed to be that where a penalty was charged, no interest was charged.

**Question 3**

The rules around the expenses listed were generally well understood. The main errors were that candidates thought that all costs for a short lease were allowable, rather than just the renewal of a short lease and that the company Spakit Ltd was the tenant rather than the landlord for the 10-year lease.

**Question 4**

Quite a number of candidates failed to answer this question. Of those who did, many achieved. A few tried to apply the reduction of cost for a lease which is a wasting asset and some failed to completely answer the question by giving the amount of the tax liability.

**Question 5**

About half the candidates failed to identify that an accounting period ceased when the company ceased trading. These candidates were still able to achieve some marks if the other rules relating to accounting periods and filing dates were correctly explained.

**Question 6**

Generally, this question was fully answered. The few candidates who performed poorly had mostly missed the long accounting period.

**Question 7**

The main point of the question seemed to be understood and candidates were given marks for the treatment of the individual items, if this was explained. Errors were mainly on the calculation of the relevant amounts for loan interest and charges.

**Question 8**

This question was less well answered. Although candidates understood the chattels rules. The interaction of the rules with capital allowances was less well understood.

**Question 9**

This was answered correctly by a number of candidates. Candidates were given credit if it was clear that there were tax implications regarding the business rather than private use of his home. In the

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second part of the question, candidates who missed the no gain/no loss were given some credit for follow on assumptions: that market value would apply to a transfer to a connected party or that gift relief would also be available.

#### **Question 10**

Most candidates noted that both sales qualified for business asset disposal relief. The problems seemed to be the calculation of the restriction of the gain on the shop.

#### **Question 11**

In general, this question was well answered with most candidates achieving full marks.

#### **Question 12**

Where this question was attempted, many candidates achieved full marks. Errors were mainly in the calculation of both the retail sale (taking 1/5 rather than 1/6) or not accounting for the discount on the wholesale sale.

## **Part II**

### **General comments**

Overall performance was disappointing with some basic misunderstandings of, and confusions between, the taxation of unincorporated businesses and companies. There were many omitted requirements. Too many candidates showed a reliance on reproducing information from study manuals and other resources without thinking about how this applied to the specific scenario and question asked. The marks they could obtain in this way were limited and this approach also wasted significant time.

#### **Question 13**

##### **Part 1a)**

Adjustments to profit calculations were usually good enough, the most frequent error being to allow the costs of food gifts. Although candidates were asked to write a letter (and were given credit for doing this), this first requirement only asked for candidates to show their treatment of each item and not for explanations. This instruction is frequently used to encourage candidates to show they have considered all items whether disallowed or not. Instead, some candidates wrote at length to justify their treatments, sometimes twice – in an appendix and in the body of the letter. Even if candidates misinterpreted this instruction, they should have restricted their time on this part to 8-marks worth. A minority of candidates gave very confused adjustment calculations.

Candidates sometimes confused this business with a company and/or divided (either here or in the next part) their profits into a 12 month and a 3 month period. This affected capital allowances (which generally caused candidates some issues). Such candidates often gave two computations with extensive WDAs in the first, and sometimes the second. It was possible to achieve many marks on follow-through if they eventually calculated balancing adjustments, but by then they had lost lots of time with superfluous calculations. Many candidates failed to apply the private use adjustment correctly to the balancing charge on the car, and some, despite recognising this as a charge, then treated it as an allowance. Too many candidates did not calculate a balancing allowance on the main pool. The computer purchase was frequently omitted, and if included, AIA was erroneously given.

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As a general point, if asked to write a letter to a client, in an exam or in practice, using the client's correct name is a basic professional courtesy. Using a variation may be deemed offensive.

#### Part 1b)

This requirement highlighted lack of comprehension of how sole traders are taxed, particularly on cessation. There were some decent attempts but answers were usually not good. Basis periods were frequently incorrect, if stated (as the question asked). Some candidates did recognise that overlap profits would be deducted, and the better-prepared realised that the information was available to calculate these.

#### Part 1c)

Many candidates correctly identified that this requirement concerned post cessation receipts and expenses. However, it seems that many then turned to their study manuals and wrote at length from this. Amongst some superfluous information, they were sometimes able to obtain decent enough marks, although these marks were possibly 'expensive' in terms of time taken to reach the relevant points. Such candidates could not score full marks as there were specific marks available for application to the scenario. A significant number treated income and expenditure interchangeably, 'allowing' income as a deduction. Some gave much detail on accounting treatments without a mention of the treatment for income tax purposes, which was asked for.

A few candidates had apparently undertaken an internet search which yielded some VAT information about debt collection fees – irrelevant to this question.

This part was occasionally omitted or only briefly addressed.

Overall, this question, and many other parts of the exam, highlight that candidates are not adopting a suitable approach to these exams, in terms of use of open books.

#### Part 2

The Ethics manual could be used successfully here, with candidates often achieving good marks. However, marks for application to the facts of the question were rarely awarded – the question clearly stated which activities the firm would complete and which would be taken on by the client. Some candidates were not selective about which part of the Ethics manual to replicate. References to 'the new adviser' were largely irrelevant given the client was to prepare his own returns. Some gave too much general information about disengagement, rather than only the contents of the letter as required. In fact, some candidates never got to the contents, with a few even ending their answers with 'a disengagement letter will normally address the following' with nothing following. This shows little thought being applied, but the candidates were no doubt comforted that because they were using the time, they were scoring marks. This was not so.

It seemed some candidates relied on internet searches rather than the specific ATT Ethics manual. As a result, the examiner has now been well-informed of the disengagement letters advised by other professions and professional bodies. (Candidates were fortunate that in some cases, advice is similar.)

#### **Question 14**

##### Part 1

This short requirement about the enquiry window for a late return was the best-answered question of Part II of the exam.

##### Part 2

Answers to this corporation tax computation were disappointing. There was a challenging element about the use of capital losses brought forward, although most candidates managed to get some

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marks for this. However, too many candidates did not attain marks for the more basic elements. Candidates confused trading profit and taxable total profits (TTP). They often made adjustments to the former which were not required – the question clearly stated that the figure given was before other income and expenditure. They then failed to include other forms of income in TTP. Even in better answers, interest was rarely split between its trading and non-trading elements, although many candidates did correctly treat (some) interest as a NTLR deduction rather than a property income expense.

Some candidates lost an easy half mark for not calculating the corporation tax itself.

Part 3

There were many perfect answers to this question about quarterly instalments. Other candidates picked up some marks, despite errors in their first payment date and the number of instalments required. Many candidates used their corporation tax liability for the previous period, either deliberately or due to misreading the question.

Part 4

This Law part was occasionally omitted. Some made some guesses and happened across a half mark or two. Some confused a board meeting of directors with meetings of shareholders, or perhaps knew more about the latter so decided to discuss those. However, those who were aware of the content of the Law manual could frequently score well.

Part 5

Many candidates answered the question they wanted rather than the one asked and gave the corporation tax return filing date, or in some cases the payment date. Again, the information required was in the Law manual. Here, and in other questions, some candidates did not give a date when asked to state a date. 'Nine months after the year end' is not an answer to 'state the date'.

**Question 15**

Some candidates omitted all or parts of this question, possibly for time reasons. Some such candidates did go on to attempt question 16, perhaps as it was a shorter question.

Part 1

Most candidates did not fully address the requirement by showing the relevant pools for purchases. Candidates must be prepared to answer the question actually asked on the day. Answers were often decent, although rarely very good. The most frequent other errors involved the treatment of the machinery installation costs and the electric vehicle charging point. The small pool write-off was often also missed.

Some candidates gave enhanced first year allowances, despite this not being a company. Some candidates were also confused by the partnership change during the year, thinking separate capital allowance computations should be completed before and after the change. They could usually obtain many of the marks, but again, made their calculations more time-consuming. The order of the requirements should have helped.

Part 2

Many candidates did well with this partnership profit allocation calculation, but occasionally did not use the profits figure they had just calculated. Other errors involved the salary and interest – failure to pro-rate, giving both before and after the partnership change, or calculating but not including in overall totals.

Part 3



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This was the most frequently omitted requirement and was rarely answered well when attempted. Candidates were clearly not prepared for a question on accounting re partnerships, despite this being in the syllabus and covered in the Accounting manual.

Part 4

Most candidates correctly identified the classes of NIC payable, and many who recognised the annual maximum went on to achieve good marks.

**Question 16**

This final question was sometimes omitted, presumably for time constraints but was sometimes attempted in preference to question 15 (see above).

Part 1

Most candidates understood the required time period for purchase of the replacement asset although not all understood the date rule for making the claim, or gave the date. Some candidates recognised that the assets need to be qualifying assets, used in the trade.

Part 2

Answers varied for this calculation of capital gains tax, with some perfect responses. Small errors including failing to include 'repair' costs as an allowable deduction (these having been required to bring the asset into use) and including the computer equipment as a qualifying replacement asset. Low marks were scored if candidates failed to answer the question in full by calculating the capital gains tax – there were many marks available for use of the AEA, calculations of the remaining basic rate band, and application of CGT rates.

Part 3

Most candidates who got this far managed to attain some marks, either recognising that the land cost must be known to exclude it from the SBA calculation, or recognising that the allowance is only given from when the asset is brought into use. Again, there was much additional information given in answers about SBAs which would not be required for the actual calculation.

Part 4

Some candidates were confused over the mechanism of rollover relief, presumably mixing the reinvestment in a depreciating asset with the sale of such an asset – the latter was the case here. Those who understood did not always explain the effect on the gain on the disposal of the site, nor even recognise such a gain. Much was written about capital allowances, although too few candidates recognised that there would be no allowable loss on the computer disposal because of these. Slightly more recognised the mechanism for the effective clawback of SBAs on sale.

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### **Paper 3: Business Compliance**

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#### **Part I**

##### **General comments**

Overall performance was good with candidates prepared for most of the topics tested.

##### **Question 1**

There was some confusion as to whether the gifts needed to have VAT accounted for, which showed a fundamental misunderstanding of the rules. For those that recognised that the VAT was reclaimable, answers were brief and did not discuss how this would be reflected in the returns. Answers tended to focus on the conditions for VAT deregistration.

##### **Question 2**

This question was very well done in terms of stating conditions. There was some absence of comparison between the two schemes.

##### **Question 3**

Surprisingly, there were some very poor answers and a significant number of candidates did not attempt the question at all. Accounting is a key part of the syllabus and should not be left out of revision!

##### **Question 4**

Candidates were very well prepared for this question and produced very accurate answers, which often gained full marks. Full marks were not given where candidates omitted the due date of payment, but answers overall were excellent.

##### **Question 5**

Candidates did not do well on this question. Whilst they were able to readily state the due dates for payment, they did not consider the amount of interest due correctly and often mixed the debits and credits up. This again is a core area and so the standard of answers should have been much better.

##### **Question 6**

A very common error in this question was failure to deduct the lower limit of £6,240. Apart from a small number of answers which gained full marks, the majority just multiplied the salary by 3% and 5%

##### **Question 7**

Answers to this basis period question were good with many candidates scoring full marks.

##### **Question 8**

Answers were often good enough, although full marks were rare. The question was occasionally omitted. Answers too frequently gave far too much irrelevant information copied out of the learning materials in the hope of hitting on something correct. This wastes time and yields few marks. The requirement asked for reporting obligations, not for payment obligations or other aspects of the Construction Industry Scheme. Few candidates gave answers applying the specific facts of the scenario when explaining when the documents were required.

##### **Question 9**

Answers were usually good but with one or two errors. These included failing to bring separate calculations of income tax and NIC together to answer the question by calculating net income, and

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sometimes deducting the personal allowance when calculating NIC. On rare occasions, the status of a partner was misunderstood and income taxed as dividend income.

#### **Question 10**

Most candidates understood the use of the employment allowance against Class 1 secondary contributions only although fewer mentioned how this is applied to the earliest monthly payments first.

#### **Question 11**

Answers were usually good but rarely perfect. The due dates (needed to explain the overdue period) were omitted or incorrect. The other main error was misunderstanding the relaxation of the basic penalty for the first late payment, in the situation of a long-overdue payment. Some thought the additional penalties did not apply either, whereas others thought the basic penalty must now apply to such an overdue amount.

#### **Question 12**

There were decent answers, although few full marks. The specific entertainment allowance was rarely correctly explained. Most were aware of the £150 exemption for the annual parties, although some thought the limit applied to each separate event without consideration of the total expenditure, or taxed the excess over £150. Candidates still occasionally change the question to suit them - here, changing the circumstances of the concert ticket, rather than answering what was asked. A few candidates confused the entertainment allowance with the other aspects of the question, suggesting the employee paid for the parties out of this. Candidates should make sure they read the information given carefully.

#### **Question 13**

Some gave decent answers regarding the Scottish taxpayer but others wrote too vaguely rather than referring to the specific 'close connection' rules. They sometimes failed to consider that such a taxpayer must be UK resident. Most understood the effect on the tax code.

## **Part II**

### **General comments**

Performance was generally good, although some marks were lost for failing to answer the question asked, and for not reading the facts of the scenario correctly.

#### **Question 14**

##### **Part 1**

Answers were mixed. Either candidates gained full marks and showed a good understanding of the scheme or they just treated this as a standard method for partial exemption and incorrectly performed calculations on that basis.

##### **Part 2**

Candidates often used the 45p as the basis for their answers instead of stripping out the fuel element. However, a significant number did correctly calculate the input tax recoverable in respect of the employees, which was very encouraging to see. Most also knew the treatment for client entertaining.

##### **Part 3**

This was very well done with many candidates achieving maximum marks.

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##### Part 4

Candidates performed reasonably well on this part.

##### Part 5

There is still confusion on the treatment of goods v services and answers in relation to Logodrone and Ellen were mixed. Some candidates scored full marks; others got the two treatments mixed up. Candidates are now well practice in the reverse charge provisions and the treatment of the consultancy services was well done.

#### **Question 15**

##### Part 1

This was very well done. Clearly, candidates have practiced this area a lot. The only time maximum marks were not given was when the dates for filing the corporation tax returns were given incorrectly. Some candidates confused the filing date with the payment dates for corporation tax for small companies.

##### Part 2

This again was generally well done. There was often failure to multiply the accommodation benefit value by the official rate of interest and a number of candidates forgot to adjust for non-availability of use for the car.

##### Part 3

A very good standard of answers with candidates producing technically correct answers.

##### Part 4

The main mistake on this part was to treat the staff uniform as being a taxable benefit and the overseas conference being exempt. Overall, though, there was a high number of candidates scoring full marks.

#### **Question 16**

##### Part 1

The partnership profit allocation calculation was usually well done, with occasional errors relating to interest and salary. There were many perfect answers.

##### Part 2

Most candidates scored enough marks on this law requirement relating to awards on unfair dismissal, although rarely high marks. If they had been more aware of the content of the law manual, they could have easily scored full marks. The requirement was occasionally omitted.

##### Part 3

This requirement on termination payments yielded a range of marks. The most frequent error was failure to identify that part of the cash payment would be fully taxable as PENP as the notice period had not been worked. Some candidates double counted amounts, treating the same amount of cash in different ways. Most correctly treated the training course as exempt and remembered to apply the £30,000 exemption, although sometimes made errors in this regarding the statutory redundancy payment.

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##### Part 4

Most candidates gained something for considering the payroll reporting obligations for a leaver, although not always full marks. The requirement was occasionally omitted.

##### Part 5

This discriminating requirement was frequently omitted or only briefly answered as candidates were not aware of the rules. However, some candidates did understand the treatment of a payment made to a former employee after the P45 has been issued. The best answers detailed how much of the basic and higher rate bands would be available (1/12<sup>th</sup>) and the rates.

#### **Question 17**

##### Part 1

This ethics part was occasionally omitted. Many candidates could identify the relevant part of the PRPG and scored well, although there was little specific application to the scenario. Some candidates answered the question they wanted (client take-on) or were unclear of (or ignored) the roles of the different parties, skewing the facts of the scenario to fit their knowledge/ a particular section found in the ethics manual. A re-read of the opening two paragraphs of the question may have helped.

##### Part 2a

Again there was a range of answers, with most candidates scoring well enough, and some very good answers. There were attempts to refer to the facts of the scenario, although not always successfully. Some answers gave far too much irrelevant information, including conditions relating to employees and share options, despite these being specifically excluded in the requirement.

##### Part 2b

Some, but not all, candidates recognised that the existing CSOP options affected the number of EMI options that could be granted. Many candidates confused share values in the final part of their calculation, incorrectly identifying the market value at grant of the EMI options.

##### Part 2c

There were many very good answers to this requirement, and plenty of decent attempts. Errors included the failure to appreciate that the EMI options were granted at a discount and so an income tax charge arises on exercise. Some candidates also confused the grant date for the CSOP options with that for the EMI options, leading to an income tax charge at the earlier date (thinking this was an exercise in under three years) rather than the second date (which should mean an exercise in over 10 years). However, such candidates could still gain most marks available on follow-through.

## **ATT May 2022**

### **Paper 4: Corporate Taxation**

#### **Examiners' report**

##### **Part I**

##### **General comments**

Overall, the paper was well answered. It is important for candidates to apply their knowledge to the scenario in the question to demonstrate their understanding rather than just repeating facts in order to gain all marks.

##### **Question 1**

Most candidates answered this question well. On occasion the disposal was missed or the wrong amount was deducted. Where errors were made with the treatment of the additions, follow through marks were still awarded for the correct calculation of allowances. The odd candidate rounded the figures to the nearest thousand which lost them marks. Candidates should practise using the table functionality in the software to make it easier to present their answer effectively.

##### **Question 2**

A common issue in answering this question was working out the gross amount incorrectly, however if the Dr and Cr descriptions were correct but the figure incorrect they received half of the available marks. If the correct amounts were used but the Dr and Cr the wrong way round only 1 mark was lost. Candidates should make it clear whether the Dr/Cr is a balance sheet item or a profit and loss account item.

##### **Question 3**

This question was not answered well. Some candidates said that notification needed to be made by 31 March 2021 rather than 1 April 2021 which lost that ½ mark. Candidates forgot the rules for a long period of account and incorrectly compared a filing deadline of 31 March 2022 (rather than 31 March 2023) to 3 months after the CT603 was issued being 3 August 2022 which gave them the wrong answer for when the tax return due and lost those marks. Most candidates correctly identified that the accounting period started on 1 January 2021 when Heron Ltd first gained a source of income.

##### **Question 4**

This was answered well. Some candidates didn't specify the company was close which was why the S455 rules applied, others weren't clear that you took the lower of the amount owing at the end of the accounting period or at the normal due date so lost the odd mark.

##### **Question 5**

Most candidates had a good attempt at this question. Candidates lost marks for saying that Tiffy Ltd had to make a corresponding adjustment when they can make it. The answers needed to be clear that Kay Ltd couldn't make a corresponding adjustment as it wasn't UK resident. Many candidates made very general comments, for which they gained marks, but they would have received additional marks had they made these specific to the scenario in the question.

### **Question 6**

This question was answered well. Candidates sometimes stated the rules and could have applied them to the question better but still received marks. A significant number of candidates did not mention that Jesmond had to be a trading company in the last 12 months and lost a ½ mark.

### **Question 7**

Most candidates had a reasonable attempt at this question. Many lost marks by not mentioning for which quarters Bailey had to complete a CT61, but if it was indicated that two returns were required they received one of the available ½ marks. Where candidates made reference to the tax withheld exceeding the tax suffered and vice versa they received the ½ mark for the 'amounts paid and received' in the mark plan.

### **Question 8**

This question wasn't answered particularly well, however most candidates did pick up marks. In general answers were too brief and the answer didn't include how the NIC was reported to HMRC.

### **Question 9**

This question was answered well. Some candidates treated the interest on the bank overdraft as non-trade which was incorrect, others didn't state that this would be trade related and the question did ask the candidates to show the treatment of each item. There were some errors copying down the figures incorrectly from the question.

### **Question 10**

The majority of candidates answered this question well. Some candidates explained the payment dates correctly and then worked them out wrong, but they still received some marks. Most candidates did not work out the very large company limits as shown in the answer, but no marks were lost for this (as long as they worked out the large company limits correctly) as it was clear that Broscombe Ltd's augmented profits wouldn't exceed those.

### **Question 11**

Candidates often forgot to answer the corporation tax implications part of the question, losing these marks. Candidates answered the income tax part well. Some candidates didn't allocate the £30,000 to both redundancy payments saying the excess was taxable and therefore lost a ½ mark.

### **Question 12**

Candidates lost marks on this question for not specifying the dates relevant to the scenario and also saying 31 June 2022 which doesn't exist. Most correctly identified the flat rate penalty but some found the tax geared part more tricky and said it didn't apply as the return wasn't 18 months late, however it is 18 months after the accounting period, not the filing date.

## **Part II**

### **General comments**

Most candidates were able to attempt most questions, but despite there being a lot of marks to go for, very few were able to achieve full marks. The paper was straightforward, with nothing to trip up the well-prepared candidate. As with Part I it is important for candidates to apply their knowledge to

the scenario in the question to demonstrate their understanding rather than just repeating facts in order to gain all marks.

### **Question 13**

#### Part 1

The scenario clearly stated that Box and Fern had trading losses – no marks therefore for other losses.

Many candidates over looked the fact that Fern's trade was negligible and it was suggested a revival could take place – thus losing 2x ½ marks

#### Part 2

A mark was given if the candidate demonstrated they knew that time apportionments was needed. Most candidates however did not apply the shareholder approval date and completion dates.

The question required the candidate to state the unrelieved losses – very few did.

#### Part 3

Candidates must learn that outside of the scope does not mean the same as VAT exempt.

#### Part 4

Generally well answered

### **Question 14**

#### Part 1

As mentioned in Part I, candidates should practise using the table functionality in the software to make it easier to present their answer effectively.

Candidates should ensure that tax treatment of all items are explained. Simple mistakes included IA creating a loss; including dividend as taxable income.

#### Part 2

This question asked for hand over of papers only ; no other ceasing to act issues were required.

### **Question 15**

Candidates should ensure that this was written as an email – losing 1 mark if not.

#### Part 1

This question was answered well.

#### Part 2

The issue most candidates missed was that Bede SA is a French company with a PE.

#### Part 3

It was necessary to identify that there is a degrouping charge to gain full marks.



**Question 16**

Part 1

The eligible cost is the construction cost less land. Most candidates missed this.

Part 2

Most candidates knew the relief available and scored well.

**Part I**

**Question 1**

Fairly well answered on the whole, most candidates identified that Alfonso was a formerly domiciled resident but should ensure they apply the conditions to the circumstances outlined in the question.

**Question 2**

Well answered, although some candidates failed to correct the UK IHT on the villa correctly.

**Question 3**

Poorly answered. Many candidates provided generic answers describing an IIP trust but did not apply their knowledge to the question. A fair number of candidates identified that the trust formed is a protective trust.

**Question 4**

Very well answered on the whole. While only a few candidates identified that the trust for the sister should not be included as a related trust, many candidates obtained all other marks available in the question. Main errors were in the counting of quarters.

**Question 5**

Very well answered with many candidates achieving full marks.

**Question 6**

Well answered on the whole – most candidates were able to correctly identify the IHT treatment of the majority of the assets.

**Question 7**

Most candidates identified they should use the related property rules, but many did not go on to include the shares in the QIIP in the total estate value.

**Question 8**

Fairly poorly answered, most candidates did not identify that no disposal took place when Eira turned 25.

**Question 9**

Well answered on the whole, although a large number of candidates did not identify that the transfer to Nova Ltd was a CLT.

**Question 10**

Well answered. Candidates should ensure they state when reliefs are not available for certain assets, i.e. the cash in this scenario.

**Question 11**

Well answered on the whole, particularly the first part of the question.

**Question 12**

Most candidates were able to identify the correct treatment of Amelie's loan. Whilst fewer candidates correctly identified the difference between Ben and Danny's loans.

**Part II**

**General comments**

In each question there were marks available for simple calculations, even if the complexities of each situation were not identified. Many candidates failed to answer full questions when they could have gained several marks for undertaking straightforward calculations.

Where candidates correctly identified the issue within the question they often scored well.

**Question 13:**

Part 1

Most candidates accurately worked out the Income Tax due for the Trust, but failed to comment on the fact that the Trust was settlor interested.

Part 2

This part was answered poorly. The majority of candidates were unable to correctly prepare the R185s even if they did identify the Trust as settlor interested.

Part 3

Most candidates failed to include the Trust income within Joseph's income tax computation. Even if they did identify the Trust as settlor interested, they often did not recognise that the Trust income would retain its character when being taxed on the settlor.

Part 4

The calculation was prepared satisfactorily by most candidates and many identified that holdover relief was not available. No candidate recognised the availability of payment by instalments, but this was not required to gain full marks on this part.

**Question 14**

Part 1

This was answered well by a large number of candidates, with many gaining full marks.

Part 2

The majority of candidates correctly stated how the property would pass on death, but most failed to state how the different ownership forms differed in a legal context.

Part 3

Most candidates incorrectly identified the chargeable estate, and many failed to use the Nil Rate Band in part 1 of the question. Very few candidates successfully identified the need to gross up the tax-free legacy.

Part 4

This was answered well by the majority of candidates, with many scoring full marks.

**Question 15**

Part 1

Calculations were performed well in this part, but most candidates did not successfully identify the gift as a PET by Nikita.

## **ATT November 2022**

### **Paper 5: Inheritance Tax Trusts & Estates**

#### **Examiners' report**

##### Part 2

Most candidates gained half marks on this part, by stating the need to disclose to the client. Very few candidates stated that we are not qualified to give investment advice and that independent advice should be sought.

#### **Question 16**

##### Part 1

The majority of candidates recognised the availability of both Investors Relief and Business Asset Disposal Relief. They successfully stated the criteria for each relief but failed to link it to the facts in the question, or incorrectly relayed the facts. Most candidates scored well.

##### Part 2

Many candidates failed to identify where the conflicts of interest lay in this question, and very few candidates thought beyond the Trust to consider the effects on each of the individuals specifically.

**Part I**

**General comments**

It was pleasing to see that most candidates have now recognised that they need to answer the specifics of the question rather than simply listing everything the book says about the point being examined. Some lost marks by not providing any explanation when it was clearly required.

**Question 1**

This was generally well answered. The most common error was how the invoice, on which only the VAT had not been paid, should be treated. A number of candidates believed that the full amount of VAT was recoverable as a bad debt. The correct treatment is to treat the amount received as gross and only relieve a proportion of the outstanding amount.

**Question 2**

A surprising number of candidates appeared to be unaware of the existence of the domestic reverse charge on construction services.

**Question 3**

This caused problems for some candidates many of whom confused business/non-business apportionments with partial exemption – it is not the same thing. It was also common to refer to donations and grants as being exempt when they are not supplies for consideration and therefore have no business being exempt.

**Question 4**

A lot of candidates thought that the education provided to a commercial entity would be exempt – the exemption covers all education regardless of the status of the recipient. Some candidates only scored half marks by merely stating the liability when the question asked for an explanation.

**Question 5**

Well answered by most candidates.

**Question 6**

The first part of this question was well answered although a surprising number of candidates correctly identified that the basic tax point on the supply of goods would be over-ridden if an invoice was raised within 14 days, but went on to conclude that it would not be over-ridden in this case because the invoice issued on 30 August was within 14 days of 26 July.

The security deposit caused problems with many not identifying that there was no supply and therefore no tax point.

**Question 7**

Well answered by many candidates.

**Question 8**

Well answered by many candidates.

## ATT November 2022

### Paper 6: VAT

#### Examiners' report

##### Question 9

Well answered by most candidates. Credit was given for those who thought that the champagne would be disallowed as business entertainment, but many lost a mark on the basis that input tax was not allowable on business gifts over £50. The correct answer is that a deduction is allowed but output tax is due.

##### Question 10

A trickier question which caused difficulty for all but the most able candidates. Most people dealt with the car and van, but other parts were more difficult. The £1,000 limit applies to the total VAT due on de-registration not to each of the individual assets.

## Part II

### General comments

#### Question 11

Generally well done for a question with international aspects with no evidence of pre Brexit confusion!

#### Question 12

Candidates displayed lots of misunderstanding of relevance of RCP use in context of question with much discussion of zero rating a grant of a major interest which was irrelevant. Candidates often struggle in questions relating to charities.

Attempts at journal entries were generally poor with only a handful of candidates getting it right, Most adjustments to the VAT account were shown as Dr when they should be Cr. This shows a fundamental misunderstanding of debits and credits.

Re CGS – there were lots of comments that to be “**eligible**” to use the scheme the conditions were... as if it was an option! CGS is “**applicable**” rather than eligible.

Most candidates missed noting that, in addition to the capital spend being >£250k, VAT also had to have been incurred.

It was encouraging to see that lots of candidates picked up on stating QE for CGS adjustment and got that right. They displayed good exam technique

As expected with CGS question lots of candidates used the wrong baseline recovery and started in wrong interval – follow through marks were awarded as much as possible.

Overall, for a CGS question, this was well done.

## **ATT November 2022**

### **Paper 6: VAT**

#### **Examiners' report**

##### **Question 13**

Really well attempted but lots of candidates included April turnover when calculating PLR even though they knew VAT reg was from 1 May!

Marks were lost for using 20% instead of  $1/6^{\text{th}}$  when working out PLR.

Many candidates quoted penalty ranges without applying to specifics of the scenario – lots of hedging bets – marks not given where just restating the rules. Candidates must apply their knowledge rather than just regurgitate this.

##### **Question 14**

Many candidates clearly identified the “intending trader” point Part 1. A significant number scoring full marks in this part.

In Part 3 there were lots of creative (but not really practical or relevant) ideas on how to improve VAT recovery, but many candidates did pick up on getting VAT registration in place sooner, albeit with lots of worrying talk of backdating the registration too! Candidates are reminded of the fundamental ethical principles that guide all of their work.

For Part 4, the law part candidates made a surprisingly good attempt.