

# The Association of Taxation Technicians

## Examiners' Reports

November 2017

### Paper 1 Personal Taxation

#### Part I

##### Question 1

This question was consistently answered well. Most candidates correctly identified that the rent on the flat had to be apportioned and that only one month's worth was taxable in 2016/17. Similarly most candidates correctly offset the loss in the year against the profit from the house.

Where candidates generally lost marks was on the treatment of the painting works for the flat. The question clearly stated the flat was already habitable, so the works were not capital in nature.

##### Question 2

Performance on this question was split, with candidates either knowing how the qualifying care receipts system worked or having no idea.

Quite a number of candidates incorrectly thought that the question was to do with Child Benefit or childcare vouchers.

##### Question 3

As with question 2, there was a varied performance on this question. A lot of candidates did well, scoring full marks. The main error was candidates simply added up the current market value for the shares and deducted the amount paid for them, thinking the remainder was the amount chargeable to income tax.

##### Question 4

Overall this question was well answered by a significant number of candidates. It was pleasing to see the better candidates going into good detail and identifying that Salim could have left the annual exempt amount in charge for 2016/17, rather than claiming full deferral, so as not to waste it.

Too many candidates simply explained generic rules, such as the maximum income tax relief was £1m x 30%, instead of focusing on the specifics of the question scenario. This uses up valuable time.

##### Question 5

The better candidates generally got this question completely correct. A surprising number of candidates did not gross up any of the income sources, showing a disappointing lack of knowledge about trust income.

##### Question 6

The quality of answers to this question varied wildly. A decent number got the calculations completely correct, but a significant amount of candidates got the deemed proceeds wrong for the

diamond ring and actually put in a cost of £6,000 rather than the probate value.

A lot of candidates lost marks on the treatment of the auction costs, with a large number deducting it from the gain on the chest of drawers after checking the 5/3 rule.

#### Question 7

A lot of candidates struggled with this question, clearly they were not familiar with how the rules work where an individual has two employments.

There were some very poor answers saying that Flora should go self-employed with the charity, make voluntary Class 3 contributions or simply "work less".

#### Question 8

This question was generally very well answered, with a lot of candidates gaining full marks.

Some candidates lost half a mark by incorrectly multiplying the Redder Ltd shares' base cost by 5, as well as the total number of shares on the takeover by Bluer plc.

#### Question 9

The better candidates did well on this question, but a lot struggled and got mixed up on how the gift relief worked.

Quite a number of candidates thought the gain of £40,000 could be fully deferred and were not aware that Fernando would have a chargeable gain in the year. In addition, a lot did not know how to calculate Alain's base cost, thinking that it was £55,000 less the gift relief.

#### Question 10

A lot of candidates were aware that there needed to be a "reasonable excuse", but only the better candidates were aware that it was not defined in the legislation.

#### Question 11

Candidates generally did ok on this question, but very few scored full marks. Often the reason why Joy was taxable on both her UK and foreign pension was not very well explained, with only the better candidates stating it was taxable on the arising basis. Some got confused and grossed up the foreign pension by 10%, rather than deducting it.

A worrying number of candidates thought Joy could claim the remittance basis, even though she was UK resident and domiciled.

#### Question 12

Candidates struggled with this question and clearly were not aware of the rules.

The most common error was multiplying the market value by 20%, thinking that would be the annual income tax charge for Sylvia.

Candidates are reminded to be specific in their answers, rather than just writing things like "there will be a charge". A charge to which tax needs to be made clear.

## Part II

### Q1

The significant majority of candidates scored very well on this question as there were a lot of easy marks to pick up with a structured approach.

The calculation of the car benefit was, on average, done better than that for the loan benefit. The only difficulty with the former was whether the cost of the steering wheel should be added. With the loan, errors seemed to creep in from not counting months, or not calculating the loan repayments, carefully enough.

Only a very small number of candidates missed the fact that there is no longer any need to gross up interest and dividends. The Personal Savings Allowance and Dividend Allowance were both dealt with well.

About half of candidates knew the tests for full exemption of the termination payment as a result of overseas service; most recognised that Newt did not qualify, but fewer gave a pro-rata deduction for overseas service. Where a pro-rata deduction was given, a sizeable minority applied this to all elements of the termination payment, including the contractual £10,000.

Rowling Ltd's possible defences against a claim for unfair dismissal was the weakest element of all answers. A few candidates misread the question and stated reasons why Newt would be able to claim unfair dismissal.

### Q2

Less well answered than Q1.

Almost everyone got the tax reducer at 30% on a maximum of £200,000. Whilst marks were not deducted, a sizeable minority thought that one could not invest more than £200,000 per year rather than that the tax relief was limited to that level of investment.

Most made some comment re the withdrawal of relief if a sale occurred within five years but there was a lack of specifics as to how much would be withdrawn in different circumstances.

Relief for dividends and capital gains was overlooked by a large number of candidates; those that did refer to these reliefs sometimes erroneously suggested that the relief was on the first £200,000 of dividends/gains rather than on the dividends and gains arising from the first £200,000 of annual investment.

The inability to relieve capital losses on the first £200,000 invested was only mentioned by a small minority of candidates.

### Q3

This question involved two independent parts that could have been answered in any order. The vast majority attempted the question but with varying degrees of success. There were many excellent high scores and some very poor attempts, but the majority scored around the pass mark. A few did not answer the question at all which was disappointing as there were some easy marks to be gained.

## Part 1

For three marks, the requirement asked candidates to explain the ATT Professional Rules and Practice Guidelines in respect of delegating work to an office junior. Given the mark allocation, and the fact that this part was not to be part of the email to the client, a detailed discussion was not required.

The best answers gave the key points succinctly in bullet points (but full sentences) and took no more than a short paragraph to get full marks.

Some candidates unwisely took the opportunity to air their own personal grievances about delegated work and what they thought that their firm should and should not do, in particular with regards to their pay, charge out fees and working hours and conditions. Candidates should be advised to stick to answering the specific question asked and avoid the temptation to answer questions that are not there or vent their feelings.

Future candidates should read the requirements carefully, and thoroughly revise the areas of ethics contained within the syllabus.

## Part 2

This part required an email to be sent to a client advising them of the capital gains tax liability arising on the disposal of a short lease and an estimation of the amount of cash that would be left after discharging all associated tax liabilities and fees.

Before answering such a question, candidates would be well advised to absorb the information given and then take a few moments thinking about the best approach to answer the specific questions asked.

Many candidates did not put themselves in the shoes of the client receiving the email. The client would want to receive a very short (one page?), factual, succinct email which just tells them what they want to know: your fee, whether or not it is tax allowable, the amount of tax they have to pay, when they have to pay and finally how much cash they will have left for retirement, with calculations as an appendix and a comment that more detail can be supplied on demand if required.

The question states that the client has never made a gain before, and that they are unlikely to do so in the future. Accordingly, they do not want a long narrative six page explanation/lecture/line-by-line account in words of how a gain on the disposal of a short lease is calculated, with comments about how difficult and complex the calculation is (!), nor why you think that your fees are reasonable.

Many candidates included points that were not applicable to the particular situation. For example, the fact that the client is a higher rate taxpayer was ignored by many and did not stop numerous long explanations of all the possible CGT rates that may be charged on all sorts of assets!

Specific technical errors made by a notable number of candidates included: stating that the fees for taxation advice were allowable deductions, or stating that they were not but not giving a reason why; treating the assignment of the short lease as the granting of a short lease; not using the lease percentage tables at all; incorrectly calculating the remaining years and months left on the lease, forgetting the annual exempt amount and taxing the gain at 10%, 18% and/or 20%.

Finally, the very important practical issue and requirement to calculate how much cash the client will end up with after the disposal was disappointingly either not addressed or incorrectly calculated. Many did not sit back and actually think about what was required, evidenced by the fact that far too many candidates thought that the calculation should start with the taxable gain.

In these types of questions, future candidates should be encouraged to think and plan their answer first, put themselves in the shoes of the recipient of their work/advice and to consider the use of computations with brief notes of explanation (if required) as an appendix or attachment to the email rather than in the body of the communication.

## Q4

This question had three parts addressing overseas aspects of income tax and capital gains tax.

Attempts at this question were quite polarised. There were some excellent answers to both parts. Some candidates clearly knew about the income tax aspects but not capital gains tax (or vice versa) and a few knew about both and scored perfect marks. Unfortunately, some very poor answers were also produced to both parts. Pleasingly, nearly all candidates attempted the question.

Many of the facts needed to answer parts (1) and (3) are contained in the legislation taken into the examination and should have given candidates the opportunity to pick up some easy marks. However, there would not have been a lot of time to look things up given the mark allocation.

The application of the rules to the particular scenario given was then required and really tested a full understanding of income received in a split basis year, and capital gains assessed in the year of return after a period of temporary absence abroad.

### Part 1

Many good answers were received to this part and obtained the full four marks, mindful that there were three things that needed to be addressed. However, a considerable number of candidates took the opportunity with this part to demonstrate their knowledge and explained everything they know about the SRTs and the eight split year cases, in detail. The maximum marks they could achieve for their considerable efforts and time was two marks. Many of them then lost sight of the actual question and did not address the other things required in this part.

Many answers also discussed the split year basis in the year of departure (2013/14) which gained no marks as the question is only concerned with the year of return (2016/17).

### Part 2

There was a mixed bag of answers to this part. Some perfect answers were given and five marks quickly gained. Some other candidates were clearly confused as to what actually happens in the split year in terms of the numbers.

Common errors were: incorrectly calculating the number of months in the UK part and overseas part, therefore time apportioning by the wrong fraction; including or excluding all overseas income for the whole year; attempting to do calculations on a 'remittance basis'; time apportioning the personal allowance, forgetting about it or positively dismissing it as not available; and calculating the tax liability (but only the taxable income was required).

### Part 3

Another mixed bag of responses were received for this part: some perfect and some misguided in their understanding of the special anti-avoidance rules that apply where there is temporary absence abroad.

Common errors were: stating there were no taxable gains in 2016/17 as the disposals were not in that year; deducting a capital loss for the car; including the gain on the quoted shares as they failed to spot that the shares were purchased and sold whilst abroad, or stated that fact but then said that the shares were chargeable anyway as they were UK assets; time apportioning or forgetting about the annual exempt amount, and calculating the tax liability (but only the total taxable gain was required).

Future candidates would be well advised to read the requirements carefully, take note of the mark allocation to guide the amount of work required and only answer the specific questions asked.

## **Paper 2 Business Taxation & Accounting Principles**

### Part I

Generally, the candidates were able to produce good answers to all questions. The most common errors and problems were:

Q1

Candidates seemed confused over the due dates for the payment of tax and many stated incorrect years. Several also gave penalties based on late filing of a tax return and not late payment of tax as the question required.

Q2

This was a very well answered question with the majority gaining full marks. Several gave more than the four badges asked for and it is apparent that many have learnt the mnemonic 'frogspawn' (although some could not apply it).

Q3

The majority of candidates gained full marks on this question. The main errors that were made in other cases was to add the electric car to the main rate pool or fail to deduct the disposal proceeds. There were a few cases of poorly presented answers but the majority had the more usual layout which showed their workings clearly.

Q4

Many candidates struggled with this answer with several explaining the rules for individuals and not a limited company. For those that had noticed the limited company status, the most common error was to state that losses could be carried back or carried forward against rental income only.

Q5

The majority of candidates produced a fairly good answer but many failed to mention the treatment of additions and disposals in the final period and just stated that the end balances were either a balancing allowance or charge.

Q6

This question was answered correctly by many candidates. The most common errors made by those who did not gain full marks were the apportionment of the cost, ignoring the indexation allowance or, when calculating the amount of indexation allowance, multiplying the gain and not the cost by the indexation factor.

Q7

Many candidates gave correct answers to this question. The most common error was to show the difference between the purchase price and the full gain (not the rolled over gain) as the new base cost.

Q8

The majority of candidates gave good answers and either gained full marks or near full marks. There were a few however, who, it would appear, made poor guesses at what records are required for VAT purposes.

Q9

Many candidates stated the correct rules, although there were a few who stated the rules the wrong way around.

Q10

This was another well answered question, with many gaining full marks. The main area for error was in stating the dates of payment for the two different classes of NIC.

Q11

The majority of candidates calculated the amount of the prepayment correctly, although there were a few who showed the prepayment as being half of the total (i.e. for 12 months rather than six months). Many were also able to show the correct 'T' account entries; however there were a few candidates who appeared confused over how the amounts would be posted.

Q12

Although this question was generally well attempted, the main area where candidates failed to gain marks was in the description of a bad debt and a doubtful debt which did not give enough detail. The accounting treatment was generally described correctly.

## Part II

Q1

Many candidates performed well in this question, although a minority could not identify which items appeared in a profit and loss account and which in a balance sheet. Most candidates found it difficult to work out proprietors funds.

Where candidates identified the two CGT reliefs that might be available to Jump, few were able to identify the time limits properly.

Q2

Identifying disallowable expenditure proved much easier for candidates than removing non-trading income from trading profits. Many were unsure as to how the various losses might be used. Many candidates attempted to explain why Roundabout Ltd needed to pay its tax in instalments, but some confused turnover with profits. Few candidates correctly identified the actual payment dates.

Most candidates provided reasonable narrative on factors to distinguish self employment from employment.

Q3

While many candidates gave some written explanation of loss reliefs that could be used, very few were able to follow that through into calculations. In particular, candidates confused LIFO and FIFO, often stating one in narrative but then showing a different order in the calculations. Many candidates treated the capital gains as items of income.

Few candidates adequately explained basis periods in the letter to Mr Field, although most correctly calculated HP interest.

The ethics question was poorly answered, if attempted.

## **Paper 3 Business Compliance**

## Part I

1. This question was generally well answered. However, candidates often lost a half or full mark by failing to briefly explain how bad debt relief worked.
2. The majority of candidates correctly stated the TOGC conditions. Again, many candidates lost a mark by failing to explain what a TOGC was.
3. The answers to this question were mixed. Many candidates calculated NIC on a salary although no salary was included within the question requirement. Many candidates were also unsure how and when the deemed payment would be reported to HMRC.
4. Most candidates scored full marks on this question.
5. This question produced mixed answers. A significant number of candidates scored full marks and dealt well with the partial exemption calculation and de minimis tests. Others simply applied the tests to the existing numbers and did not produce a partial exemption calculation. Partial exemption does appear to be a persistent area of difficulty for candidates.
6. This question was generally not well answered, with only a few well prepared candidates correctly identifying and applying the annual exemption and trivial benefits exemptions, and producing an accurate gross up calculation. PSA calculations do appear to consistently cause candidates difficulty. It is worth noting that a significant number of candidates prepare calculations on a per individual basis, failing to note that the employer will be settling the tax and NIC on the whole cost.
7. The majority of candidates correctly calculated the deduction due from the payment to the subcontractor. A number also identified that a deduction would be taken if materials had a profit element which showed an understanding of CIS principles. The second part of the question, regarding the reporting requirements, was not as well answered with many candidates providing incorrect dates or stating that this would be reported on the FPS.
8. Many candidates struggled with this question and often wrote very long answers, including qualifying conditions which were not required.
9. Most candidates correctly calculated the impact of the employee's contributions. A number of candidates failed to state the impact of the employer contribution, therefore losing marks. A small number of candidates also confused the rules for personal pensions, applying gross ups to the contributions.
10. The majority of candidates correctly stated the P60 conditions. However many failed to mention the final payroll report and so lost half the marks available. Most candidates wrote a significant amount of detail on the P11D process whereas the question clearly asked for details on reports required in respect of salaries.
11. Many candidates scored full marks on this question. A significant number dealt correctly with the tax aspects of the question but completely failed to mention the NIC treatment, or did not clearly state the NIC treatment for each element of the payment, therefore losing credit.
12. Many candidates scored full marks on this question. Some candidates produced two alternative answers, calculating amounts monthly and then annually, which would have taken up valuable time for the rest of the examination.

## Part II

### Question 1

#### Part 1

This was very poorly done with candidates incorrectly assuming that commission was illegal and amounted to bribery. Only a small number actually appeared to be familiar with the professional guidelines in this area.



## Part 2

This was very well done and most candidates gained full marks. Some candidates failed to deal with all the double entries and just showed the input and output VAT debit and credit without dealing with the entries to the sales or purchases account.

## Part 3

Again this section was very well done with a significant number scoring full marks and showing excellent knowledge of the time and point of supply. Some candidates failed to consider the deposit in the second transaction.

## Part 4

Mixed responses were given for this part. Whilst most candidates dealt correctly with the first transaction, a significant majority thought the second transaction was "outside the scope". A lot of candidates also thought the last transaction was zero rated which displayed a lack of knowledge in this area.

## Question 2

### Part 1

This was very well done and candidates are now familiar with the registration rules and limits. Very few however considered the possibility of voluntary registration and just discussed compulsory registration.

### Part 2

The first part of this question in respect of the full payment submission and the due dates was very well done. Disappointingly the part in respect of the employee payment was either missed out altogether or candidates spoke at length about adding it to the FPS and repeated the due dates which displayed a misunderstanding of the question.

### Part 3

Whilst most candidates knew the rules on childcare vouchers, most incorrectly concluded that the employee was a higher rate taxpayer. This was due to omitting the personal allowance and payroll giving from their calculations.

### Part 4

Performance on this part was exceptional with full marks awarded on a regular basis. Candidates are very comfortable with computation of benefits in kind.

### Part 5

This part was one of the poorest answered in the paper. Candidates failed to consider the legal procedures involved in appointing a director and instead approached the question from a new

employee angle and spoke at length about needing a P45 for a director from his previous employment. Law is still a weak area on this paper.

#### Part 6

Candidates showed very good knowledge of the operation of the EMI scheme. However, a lot of candidates wasted time discussing the conditions for an EMI scheme instead of dealing with the income tax treatment.

### Question 3

#### Part 1

The treatment and reporting requirements for benefits in kind is an area where candidates always perform well. The first part of this question was answered exceptionally well.

#### Part 2

Answers to this part polarised between very good and very poor. Candidates either knew the rules for travel expenses or did not and, as a consequence, either failed to answer this part of the question or discussed unnecessarily the approved mileage rates.

#### Part 3

This part was also done very poorly with candidates displaying a distinct lack of knowledge on late filing. Instead, rules on the common penalty regime were regurgitated focussing on the various behaviour related penalty reductions instead of the late filing penalty.

### Question 4

#### Part 1

This was done really well with candidates displaying very good knowledge of the statutory residence rules. However, the majority of candidates concluded that Giovanni would not be entitled to a UK personal allowance unless he was UK resident. This conveyed a lack of understanding of the rules. A lot of candidates also discussed the remittance basis user rules which really were not relevant in the context of the question as the scenario did not mention any income from Middle Way and focussed purely on UK income.

#### Part 2

This was very well done and it was encouraging to note that a high number of candidates were familiar with the taxation of benefits in respect of Ben's oldest child. However, candidates often failed to consider both the income tax and NIC consequences.

#### Part 3

This question gave rise to some very odd responses. The question focussed on the ethics of dealing with the new tax adviser of an existing client, yet a lot of candidates approached this from an employer / employee point of view and discussed the documents that would be needed by Sarah's new employer given she was moving to Middle Way.

Overall, candidates coped well with this paper. The parts that were poorly answered were compensated for by some excellent answers elsewhere on the paper.

## **Paper 4 Corporate Taxation**

### Part I

#### **Overall**

Candidates' performance was varied on a paper that gave good opportunities to achieve high marks. Candidates must remember to read the questions carefully and answer the requirements. Presentation was an improvement on previous sittings which was pleasing to see. Comments on each question are made below.

#### **Question 1**

A good question to obtain some easy marks, however, there were very few full marks awarded. Candidates struggled with the late payment penalties with many failing to refer to the filing deadline as a key date.

#### **Question 2**

A reasonably well answered question with no particular issues.

#### **Question 3**

A good number of candidates failed to spot the electrical wiring qualified for AIAs. Most candidates dealt correctly with the short period.

#### **Question 4**

A straightforward accounting question that posed few problems for those candidates who had revised this part of the syllabus.

#### **Question 5**

Another straightforward question for candidates. A good opportunity to pick up marks which most candidates did.

#### **Question 6**

A real mix of answers. Many answers were poorly laid out which meant full marks could not be easily obtained. Workings were also not shown which meant candidates missed out on marks. It is important for candidates to remember to show all their workings.

#### **Question 7**

Candidates struggled on this question. Particular problems included:

- Not stating that a current year loss claim must be made before trading losses could be carried back and set against total profits in the preceding year.
- Not stating that trading losses need to be carried forward and set against profits from the **same** trade.

- Stating that property losses can only be carried forward and set against future **property** profits.

### **Question 8**

A good number of candidates did not read the question properly and gave the corporation tax implications of the payments – this was not asked for. Furthermore, the question asked candidates to show the amounts payable and to whom they are paid – in many cases this instruction was not followed.

### **Question 9**

A fairly well answered question. There was, however, some confusion over the statutory redundancy payment which many candidates stated was tax free.

### **Question 10**

Candidates should be prepared to give supporting arguments for their answers. They should provide an explanation of why the stationery costs and warranty provision were both allowable expenses.

Again, candidates should ensure the question is read thoroughly as it asked for each transaction to be considered. In many cases this instruction was ignored.

### **Question 11**

A very good opportunity to score heavily which was missed by candidates. Candidates confused this question with opening rules for self-assessment basis periods which was disappointing. As a consequence, a number of answers showed overlapping accounting periods.

### **Question 12**

No particular comments to make. Most candidates were able to score at least one mark.

## Part II

### Overall

There were four questions in this part of the paper, but broken down into a total of 16 parts. With such a wide P4 syllabus encompassing all of the relevant taxes, ethics and legal issues, this break down of requirements is designed to guide candidates through the taxes and provide a prompt as to the time spent on each part.

Candidates that spread their efforts and energy across the questions performed well.

### Question 1

In three parts this question examined Corporation Tax issues using information concerning net profit for one of the group companies and notes relating to the results for the year ended 30 June 2017.

Research and development: Many candidates confused the fact that essentially 230% relief is available, but some of that had been given already. In addition few candidates adjusted for the capital cost of the computer hardware. However, amidst those issues, marks were still available for recognising the enhanced relief and also the 40%/60% restriction with regard to the consumables.

Interest payable and non-trading loan relationships: The interest payable in the notes for Ferry Ltd was broken down into three categories. Many candidates added back the global figure which made it difficult to determine whether they knew which elements should be adjusted for. It is best to delineate the items for clarity although judgement was exercised when linking the treatment of said items in the calculation of the non-trading loan relationships deficit figure, later in the question.

Consortium relief: There were only a few instances of Mark Flyte being brought into the consortium relief calculations, which is good news. However, lots of candidates misapplied the 20% shareholding of a consortium member Clear Ltd to its loss, rather than the profit of the consortium company. The group structure was put at the top of the question, but candidates who were a little confused received partial credit.

Chargeable gain: A building was sold where a previous rollover claim had been made. Most candidates successfully adjusted the base cost, although some went on to base indexation allowance on the original cost, without the adjustment for rollover.

Professional privilege: This was the last part of the question for four marks. Law is included in the syllabus, but candidates drifted into answers about money laundering or ceasing to act for a client, without defining professional privilege.

## Question 2

In four parts this question examined Corporation Tax, Income Tax and National Insurance, including the personal service company rules.

Stronger candidates described the right tax in the right place but some leniency was used for cross marking accurate knowledge across the parts. In part 1 candidates needed to distinguish between the salary, on which Class 1 secondary contributions were due, and the benefits on which Class 1A contributions were due. Class 1B contributions were not an issue here, but some candidates mentioned them in their answer.

Almost all candidates produced a decent calculation of the deemed payment and credit was given for all other appropriate comments regarding the National Insurance liabilities.

## Question 3

This was a four part question covering Corporation Tax and VAT.

Sale of shares, degrouping charge and substantial shareholding exemption (SSE): The SSE was tested via a sale of shares combined with a degrouping charge that is then bundled into that calculation. Candidates did very well and all but a handful produced the calculation for the degrouping and the sale of the shares, despite the exemption. As this was an email addressed to a manager, that was entirely sensible as it identified the various stages and provided the manager with the opportunity to review the calculations and conclusions. Candidates performed well on this part.

Use of brought forward losses: The pertinent issue here was a change in ownership combined with the value of the losses for the new owner. The various parts of the phrase "major change in the nature or conduct of the trade" were a little mangled on occasion. The strongest candidates linked the issues to the facts in the question about the value of the losses but the majority of candidates scored marks referring to a restriction linked to a three year issue.

VAT: Marks were available for identifying the six month period and write off requirement in order to obtain bad debt relief and the majority of candidates scored at least half marks here. The identification of the tax point was a little vaguer, or absent.

Purchase of UK companies: There were lots of achievable marks regarding the payment of Corporation Tax by companies and the majority of candidates talked competently about instalment payments and dates. Only a few candidates mentioned that the number of related companies is determined at the end of the previous period and then applied that rule to the facts in the question.

#### Question 4

This was a five part question looking at Corporation Tax, Income Tax and VAT issues as a result of the incorporation of a business, including ethical issues for the firm following the client's request for advice.

Incorporation: Most candidates correctly calculated the net gain on incorporation. Sometimes the other non-chargeable assets were bundled up into a gain, but this was unbundled and appropriate credit given.

Almost all candidates identified incorporation relief and follow through marks were given for their numbers in the rest of this part.

VAT: There were lots of very good answers regarding the transfer of a going concern for VAT purposes and the necessary conditions. Few candidates mentioned the alternative if the conditions are not met. In addition, some candidates are still describing the TOGC treatment as exempt rather than outside the scope.

Payments to the managing director: Both Corporation Tax and Income Tax issues were examined and the majority of candidates picked up ½ marks along the way with basic points about the treatment of dividends and deductibility of remuneration items. There was a close company point about the deductibility of benefits provided to a participator, but that was missed. However the 4 mark requirement had 5 ½ marks available.

Ethics: This involved client acceptance procedures and potential conflict of interest and produced some good answers. Whilst this was at the end of the exam, most candidates made valid points that scored.

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

#### Part I

- Q1 This question was answered well on the whole. However, candidates need to be wary of jumping to conclusions. Many assumed Pierre had French domicile even though this was not stated in the question. The possibility of him having English domicile should also have been considered.
- Q2 Most candidates were able to state whether 10 year charges and exit charges applied, but few explained in further detail in order to obtain full marks.
- Q3 Very well answered.

- Q4 Well answered on the whole although very few candidates correctly calculated the number of quarters.
- Q5 Most candidates calculated the loss correctly, however the description of how the loss may be utilised was poor in most cases.
- Q6 Very few candidates were able to apply the related property rules correctly using the correct formula.
- Q7 Very well answered.
- Q8 Very varied standard of answers, although most candidates picked up basic marks.
- Q9 The first part of the question was well answered, however candidates lacked basic knowledge of the IHT treatment of settlor interested trusts and so failed to pick up marks in the second part of the question.
- Q10 Fairly well answered but candidates did not always apply the correct rate of BPR.
- Q11 Fairly well answered but many candidates incorrectly treated periods of absence as qualifying for PPR Relief.
- Q12 Many candidates failed to identify that the transfer of the shares was not a chargeable disposal but, on the whole, the question was fairly well answered.

## Part II

### Question 1

- 1 Most candidates used the market value for the calculation. However, the holdover calculation proved problematic.
- 2 Many candidates did not deduct the sale proceeds of £750,000. However, they obtained marks for continuing to calculate the IHT with the inclusion of the Annual Allowances and correct available Nil Rate Band.
- 3 Candidates lost marks by not covering Income Tax and Capital Gains Tax.
- 4 Most candidates achieved the marks available.
- 5 A large majority of candidates were unable to give a correct explanation of a Resulting Trust and therefore could not provide examples.
- 6 This question was answered well with most candidates achieving full marks available.

### Question 2

- 1 Most candidates obtained full marks. Marks were only lost for incorrect calculations of the deductible loan interest, or allocation against savings income.
- 2 and 3 The majority of candidates were unable to calculate the correct R185 entries and often included the estate assets on the 2017/18 R185.

- 4 Most candidates obtained full marks.
- 5 A proportion of candidates were not aware of the differences between an Executor and an Administrator. Those candidates who knew this gave a comprehensive answer and achieved the maximum marks available.
- 6 Candidates answered this question well in most cases. However, a few candidates were unable to provide examples of fee arrangements.

### Question 3

- 1 This question was answered very well and most candidates obtained full marks.
- 2 Most candidates obtained full marks. Marks were lost for the incorrect expense deductions.
- 3 Those candidates who were aware of the main points for the RNRB answered well. Many candidates mistook the RNRB for the transferrable NRB.
- 4 This part of the question was answered well with most of the key points being highlighted.
- 5 Most candidates obtained full marks for this question. However, some candidates just listed assets that could be transferred and therefore were not allocated marks.

### Question 4

- 1 Candidates lost marks where it was not established that five trusts were in existence during the year. In some cases, the Standard Rate band was either split between four trusts or not at all.
- 2 This part of the question was generally answered very well.
- 3 Candidates were allocated marks for method, even if the incorrect tax had been calculated as a result of part 1.
- 4 Most candidates obtained full marks for calculating the capital gain.
- 5 Most candidates were able to explain when a breach of trust occurs but were unable to give adequate remedies.

## **Paper 6 VAT**

### Part I

- 1) This question was, in the main, well answered and did not cause well prepared candidates a problem. However, many candidates lost marks by failing to state that, as a result of ceasing to trade, Arundel needed to notify HMRC and deregister.
- 2) This question was, in the main, well answered and did not cause well prepared candidates a problem.
- 3) This question was, in the main, well answered and did not cause well prepared candidates a problem.
- 4) This question did not cause well prepared candidates a problem. However, many candidates failed to mention that goods must still be on hand in the business at the point of registration



in order for VAT to be recoverable. Simply stating that the first computer was not bought for business purposes was insufficient to obtain marks.

In addition, a significant minority of candidates concluded that all of the services were completed in December and therefore no VAT was reclaimable. However, this assumption was not borne out by the information in the question.

- 5) This question was, in the main, well answered and did not cause well prepared candidates a problem.
- 6) This question did not cause well prepared candidates a problem, many scoring full marks. However, candidates needed to say something technically correct to get marks for not recovering VAT on the two non-business expenses. Stating that donations are 'exempt' from VAT was insufficient to obtain credit.
- 7) Although several candidates answered this question well, many answers revealed significant knowledge gaps. Despite being prompted to do so by the question, candidates were often unable to distinguish between the VAT liability of supplies to Emsworth Ltd and whether that VAT was recoverable.
- 8) This question was very poorly answered by many candidates. A significant minority thought that import VAT was payable to clear goods through Customs when they move from France to the UK.
- 9) This question was, in the main, well answered and did not cause well prepared candidates a problem.
- 10) This question did not cause well prepared candidates a problem.
- 11) This was the most poorly answered question on the paper. The majority of candidates did not understand the difference between interest charged by HMRC and a penalty.

## Part II

### Question 1

This question was mostly answered well as candidates worked methodically through the different scenarios. Some wasted time for no marks explaining the possibility of opting to tax the first building when it was in any event going to be put to a taxable use. Most spotted the significance of the freehold sale and age of the building.

There was less certainty around the residential conversion. Again, some candidates wasted time considering the possibility of opting to tax residential property.

The capital goods scheme calculation was generally well handled. A common error though was using the input tax reclaimed rather than the input incurred as the base for adjustment.

Most candidates were able to identify the conflict of interest arising from the possibility of representing both parties to a transaction, but were less clear that there were three possible solutions.

### Question 2

Most candidates were able to reproduce the table of possible penalty rates, but some lost points by not explaining the overall approach HMRC take to the application of penalties. Very few candidates were confident enough to state that the error by Honesty was an innocent error which would not attract penalties, but credit was given for those who thought it was a careless error.

Candidates would do well to think about the question which asked for an opinion on what rate of penalty would apply rather than a statement of all possible outcomes. Bizarrely a small number of

candidates stated that the second example could not be concealed on the basis that HMRC had discovered it.

Answers to the Money Laundering question scored less well possibly indicating that candidates should devote more attention to revision of the legal syllabus which is reasonably narrow for this paper.

### Question 3

Easy points were available for stating the advantages and disadvantages of the flat rate scheme. No credit was given for candidates who said effectively the same thing over two points. Some candidates failed to convert their stated advantages/disadvantages into practical application in the rest of the question. For example, a number of candidates quoted a disadvantage as being that the scheme charged a rate of VAT on zero rated and exempt sales and then proceeded to omit those from the calculation.

The two most common errors were a failure to identify how to deal with the acquisition of goods from France and how to treat the capital disposal, with many including the latter in the overall turnover calculation.

### Question 4

This question gave candidates most difficulty – partly due to an apparent lack of time for some and partly due to the intricacies of the scenario. Many candidates missed the difference in treatment for services taking place within the EC and outside the EC (equipment and telephones). Very few were able to confidently deal with the concept of the most closely associated branch being the one to which services are provided despite this being clearly signposted in the question.

The question was quite testing, but given the nature of the global trade environment in which we now dwell and the consequent frequency with which this topic is examined candidates would be well advised to equip themselves with a very clear understanding of the rules affecting global trade.