

# The Association of Taxation Technicians

## Examiners' Reports

May 2017

### Paper 1 Personal Taxation

#### Part I

##### Question 1

Many candidates achieved full marks in calculating the accommodation benefit. Common errors for the other candidates included incorrectly using the Market Value rather than cost for expensive accommodation benefit, stating that the provision of white goods was 'exempt' and time apportioning the benefits by 7/12 even though the accommodation was available throughout the whole of 2016/17.

##### Question 2

There were many perfect answers to the calculation of property income. For those that struggled, the common errors included the incorrect number of months when time apportioning the accrued rent and the accrued insurance expense, stating that the conservatory was 'exempt' (instead of being capital in nature and therefore 'not an allowable deduction') and some giving capital allowances for the conservatory. A few also included a 'wear and tear' allowance which is no longer available.

##### Question 3

Again, many candidates calculated the beneficial loan interest benefit perfectly. However, a few only calculated one method or calculated two and gave no conclusion as to which would be assessed. Some were also confused as to when and how the strict basis will override the average method. Quite a number of candidates stated that HMRC would insist on the average method applying.

##### Question 4

Candidates' knowledge of the accrued income scheme was varied with some achieving full marks and others receiving no marks. Many wasted a lot of time addressing issues not required to be considered (e.g. what happens if the sale were ex-div) and many did not answer the specific question asked.

##### Question 5

Again, many wrote a considerable amount about appeals but did not address the specific requirement of the question and quite a few did not know the 30 day appeal rule. Keen to demonstrate some knowledge however, numerous candidates did list several things that an appeal should contain – but only 1 of the 2 marks were available for this.

Future candidates should be mindful of the mark allocation to guide the amount of detail required and should think before writing such that they only address the specific question asked rather than waste time writing content which gains no marks.

##### Question 6

Disappointingly many candidates performed part disposal computations on the receipt of the compensation even though the question clearly stated that the election had been made not to treat the receipt of compensation as a part disposal.

More surprising was that nearly one half of the cohort carelessly picked up the sale proceeds in October 2016 from the question as £605,000 instead of £605,500.

### Question 7

This question asked for the tax implications on the exercise of a tax-advantaged option and on the subsequent sale of shares. Although the question did not specifically state that the scheme was a CSOP, a small number of candidates mentioned the possibility that it could be an EMI scheme. Credit was given for addressing the implications of either scheme. Unfortunately however a considerable number of candidates mixed up the rules for SIPs with CSOPs and demonstrated a clear lack of understanding in their answers.

Some candidates had no idea about share option schemes and either did not answer the question or wrote answers that were not relevant. For those that answered the question, many wasted time explaining aspects that were not asked for (e.g. the tax implications arising at the time the options were granted and what would happen if the options had been issued at a price below the current MV when the question stated that they had been granted options to buy at a price equal to the market value).

Numerous candidates incorrectly stated that because the sale of shares was on the same day as the exercise there was no capital gain arising. However, even in competent answers, easy marks were missed by not explaining that the annual exempt amount is available and the rate of CGT that would be applicable.

Some mentioned (but not many) that there were no NICs payable. The requirement did not ask for the 'income tax' consequences, it asked for the 'tax consequences' and therefore future candidates should be mindful to think of other taxes that may be relevant to the scenario given.

### Question 8

There were a pleasing number of candidates that scored full marks on this question about the taxation implications of receiving discretionary trust dividends. Sadly a few candidates incorrectly stated that the trust dividends would be taxed as dividends in the recipient's hands and suggested grossing up the amount at incorrect rates.

### Question 9

This question required an explanation of the term 'material disposal' for entrepreneurs' relief (ER) purposes but only in the context of shares and securities. Disappointingly many talked at great length about ER in general and not about shares specifically which represented wasted effort for no return.

Many wrote about £10 million and other details which were not specifically required and gained no marks (in a few instances the answer covered 2 or 3 pages) and quite a few did not know the claim date for ER.

### Question 10

Some interesting definitions of non-wasting chattels were provided and quite a few candidates chose not to give a definition but tried to give examples. A worrying number thought that land and buildings and shares are non-wasting chattels.

Again time was wasted by many writing about what happens if a non-wasting chattel were sold at a loss and gained no marks as the question specifically asks for how a chargeable gain is calculated.

### Question 11

Many perfect answers were given for the calculation of the gain on the disposal of shares, although many did not recognise that two separate calculations were required with the application of the matching rules.

## Question 12

Again, many perfect answers were received in relation to calculation of the chargeable gain arising on the part disposal of land. Common errors included calculating the gross sale proceeds incorrectly, applying A/A+B to the £4,000 expenditure wholly related to the part disposal and using the net sale proceeds in the A/A+B formula.

### Part II

#### Q1

The large majority of candidates scored well on part 1) of this question. The areas where candidates lost marks were on not realising that for child benefit purposes the adjusted net income included the interest and dividend income, or taking off the personal allowance before adding up the total income. Others did not realise the gross gift aid amount could be deducted from the income when calculating the excess for the High Income child benefit charge. Even where the child benefit charge was calculated correctly, some candidates did not know where to add it back in the Income Tax calculation, adding it to Sarah's total income instead of adding it to the total tax liability.

The treatment of the REIT income varied wildly, with some grossing it up by 100/55, 100/90 or not grossing it up at all. The better candidates noted that it was taxed as non-savings income.

As often seems to be the case, some candidates struggled with the gift aid, deducting the one off deduction from income rather than extending the basic rate band.

It was disappointing to see that some candidates did not know about the personal savings allowance, nor the £5,000 dividend allowance. Some also grossed up both these sources of income, not knowing about the changes that mean these sources are now paid gross.

Candidates are reminded to read the question requirement carefully – a number of candidates failed to state the due date for the payment of tax, despite it being a clear part of the question.

For part 2), it was disappointing how many candidates did not answer the question set. Lots of candidates outlined (correctly) the penalties that would have been due if the tax return had been submitted on 31 August 2018, scoring no marks. Some candidates clearly got confused between the penalties for the late payment of tax with the late submission of a tax return. Quite a few correctly calculated the penalty amounts, but for the second penalty due a lot of candidates incorrectly stated it was due "after 5 months", rather than "5 months after the first penalty has been levied". A small reminder that accuracy is crucial.

A lot of candidates did not even attempt part 3) and those that did seem to be mixing it up with redundancy.

#### Q2

A lot of candidates struggled with part 1) of this question. Where most failed to score decent marks, it was because they simply calculated the total unused allowance from the last 3 years and added on the £40,000 annual allowance from 2017/18 and came to the conclusion Sanjay could pay in the full £30,000 bonus. They therefore did not score marks for explaining how the way it actually operates is that the current year annual allowance is used first, then you look back 3 years and use up any allowance from that year due to the first in first out rules.

It was actually not necessary to calculate the unused allowances from 2015/16 and 2016/17, as there was clearly sufficient unused amount in 2014/15 available to utilise against the excess for 2017/18.

A significant number of candidates grossed up either Sanjay's contributions and/or the contributions by Hutton Ltd by 100/80, not appreciating how Sanjay's would be deducted from his salary before tax, thereby saving tax at source rather than extending the basic rate band.

Whilst showing a decent understanding of the overall issue, a lot of candidates failed to "set the scene" by explaining what relevant earnings were and whether Sanjay had sufficient earnings to even be able to consider paying the bonus into his pension. They also lost out by not explaining what the tax implication would be if he did exceed the annual allowance. Only the best candidates identified the automatic 40% tax savings he would get on his pension contributions.

For part 2), candidates were often too vague in their response to score any marks, saying things like "it is important to keep a proper record in order to act as a professional" and "keeping records will ensure a good service is given to clients".

### Q3

Most candidates picked up on the PPR complications associated with Joaquin's absence from the property while in Newcastle. Most also recognised the ability to benefit from up to 4 years of absence as a result of being employed elsewhere in the UK and from up to 3 years of absence for any reason. Very few recognised that the 4 years could be applied to self-employment as well as to employment.

A sizeable majority recognised that not occupying the property immediately after acquisition could cause difficulties, although there was less certainty as to the periods of absence that were generally allowed prior to initial occupation.

Surprisingly few noticed that the grounds attached to the property exceeded the ½ hectare that is generally allowed for PPR purposes.

Even fewer realised the potential danger that the let flat in Newcastle could be deemed to be a residence so that it would be wise for Joaquin to elect his Exeter property to be his main residence.

The CGT calculation itself was generally well done.

The law part of the question was almost universally answered badly, with most candidates offering no answer and those that did attempt it barely straying beyond a suggestion that the landlord would have to give Joaquin reasonable notice to move out.

### Q4

Candidates were understandably better able to explain how a domicile of origin was acquired than a domicile of choice. A significant number of candidates, perhaps swayed by the word "choice", suggested that a taxpayer could simply chose their domicile without the need to evidence a change in their intentions that would override their domicile of origin.

In parts (2) and (3) it was important to be methodical and to consider the application of each tax (Income Tax and Capital Gains Tax), together with the applicable tax rate, to each asset (UK property and non-UK shareholding) in each of the residence scenarios (UK resident non-dom and non-UK resident). Candidates lost marks when they were not methodical and did not cover all of these permutations.

A number of candidates seemed to misread the question and refer to the choice that Jennifer had as to whether or not to claim the remittance basis; the question made it clear that she was claiming the remittance basis and it was in the context of that fact that the analysis of the application of UK Income

Tax and Capital Gains Tax needed to be done. Candidates did not directly lose marks for their consideration of whether Jennifer should claim the remittance basis, or of what the tax analysis would be if she did not, but they did waste time that might have been put to better use earning marks elsewhere.

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

### Part I

Most questions were attempted and generally the presentation and standard of the answers was very good. The most common errors and problems were:

#### Q1

This was very straight forward with many candidates gaining full marks. Where mistakes were made, the entertaining and legal fees were the two most likely items to be treated incorrectly.

#### Q2

The majority of candidates had no problem with the question and in particular were able to give four examples of fixtures treated as integral features.

#### Q3

This question was correctly answered by many. In cases where there were errors, it was mainly due to ignoring overlap relief or using the wrong order of setoff for the terminal losses.

#### Q4

Another well answered question with the majority of candidates producing very good answers and gaining full marks.

#### Q5

This question was not well answered, with few candidates explaining the rules for an associated disposal. The majority just gave the rules for qualifying for Entrepreneurs' Relief in general.

#### Q6

Another poorly answered question. Few candidates explained the conditions for claiming holdover relief in sufficient detail or correctly calculated the gain assessable.

#### Q7

Many candidates gave correct answers to this question, although where errors were made it was due in some cases to assuming that Bill Ltd could claim employment allowance and in others stating that Ben could not as he was a sole trader. The most common error was to set the employment allowance against the class 1A NIC due for Ben.

#### Q8

The majority of candidates came to the conclusion that Bob became liable to register for VAT in January 2017, although not always through correct calculations. Although the majority gave the correct date from which the VAT registration would take effect, there were several who gave either the wrong day or month.

#### Q9

This question was generally well answered with many candidates gaining full marks.

#### Q10

This was the most common question that candidates did not attempt, although the majority of candidates that did attempt an answer provided explanations which gained good marks.

Q11

There were few problems with the answers to this question, with the majority gaining full marks.

## Part II

### **Question 1**

Question 1 was generally well answered.

The main error in adjusting the profit was not adding back the sales value of the turf used privately.

A number of candidates carried out two calculations of the capital allowances: one for a twelve month period and then a second for a six month period. Otherwise most of the points were picked up on the capital allowances, in particular the FYA available for the Polo Hybrid. Some candidates deducted the sales proceeds of the old mower from the new one before calculating the Annual Investment Allowance. There also seemed to be confusion as to whether the van qualified for AIA.

The overlap relief deductible was generally correctly calculated, although some candidates deducted the total amount of overlap profits.

The tax liability was then generally correctly calculated, but there were errors on Class 2 NIC contributions with candidates multiplying the weekly contribution by 78 weeks (18 months) rather than 52 weeks. Some candidates calculated the Class 4 NIC on the basis of the profits after the personal allowance rather than on the trading profits.

### **Question 2**

Most candidates were familiar with the preparation of a Profit and Loss account and Balance Sheet. Stock was correctly calculated on either the average or the FIFO basis; the main error being the failure to include the opening stock in the calculation and just using the purchases.

The holiday pay accrual, the rent deposit and accountancy accrual were in general correctly treated in the Profit and Loss account. Some candidates included an accrual for insurance of £900 (£1,200 x 9 months) rather than making a prepayment against office expenses.

Many candidates picked up that the repair to the customer's equipment should be accrued as the damage occurred before the year end, although a number thought that because the cost was incurred after the year end then it should not be included. If a candidate did not include the cost of the legal case then marks were only given if there was an explanation of why not, including pointing out the uncertainty.

If the Profit and Loss account entries were correct then the Balance Sheet entries were usually correctly made.

Approximately half the candidates were able to explain the going concern basis and the information to consider.

The main error in the last requirement for this question was that candidates outlined the procedures for filing the accounts with HM Revenue and Customs, rather than at Companies House.

### **Question 3**

A number of candidates made the mistake of listing all the penalties for late filing of Tax Returns and also late payment of the tax, including interest provisions. However, many candidates were also familiar with the behaviour based penalties and correctly applied these to the circumstances outlined in the question.

Normally questions covering professional conduct are poorly answered, if at all. However, many candidates made an attempt at the question, although the answers were mainly concerned with not saying disparaging remarks about the other adviser. There were still quite a few correct answers which showed the guidelines had been studied.

### **Question 4**

Candidates seemed to either know the VAT rate chargeable or not, depending presumably on their experience.

Candidates were, in general, able to cope with the different presentation of information in the question: i.e. with information on the individual income and gains, rather than starting with the profit per the accounts. Some candidates did still attempt to adopt this approach by correcting the trade profit for everything including rental income and capital gain.

Particular errors included deducting the interest payable on the loan against the rental income rather than treating it as a non-trade loan deficit, apportioning the capital allowances for the director's car, not deducting the trade loss brought forward from the trading profits alone and not including the interest on Corporation Tax as a non-trade loan credit.

Generally, the responses to the last part of the question were good, covering all the main points.

## **Paper 3 Business Compliance**

### Part I

Q1: Most candidates scored full credit on this question.

Q2: Many candidates scored full credit on this question. Some candidates incorrectly calculated the VAT shortfall and therefore the Potential Lost Revenue. Some candidates also spent time listing out the penalty rules for both Deliberate and Deliberate & Concealed errors, which were clearly not relevant from the information provided in the question.

Q3: Very few candidates scored full credit on this question, with many only correctly identifying one or two of the scenarios. A number of candidates also used ambiguous terminology such as 'no VAT chargeable' or 'fully subject to VAT' which does not clearly identify the rate of VAT applicable.

Q4: The majority of candidates performed poorly on this question. A number identified the NIC liability in March, but then confused the principle of NIC recovery with that of PAYE recovery and the 50% recovery limit.

Q5: Few candidates scored full credit on this question. Many identified that some form of Full Payment Submission would be required to correct the error. However many mentioned Earlier Year Updates, which were not relevant as the question clearly states that the error is found well before the end of the year. Others incorrectly noted that an Employer Payment Summary should be submitted instead of an FPS. Many candidates also failed to note that the employer would be required to pay the NIC as soon as possible.

Q6: Many candidates scored full credit on this question. For those that did not, the area of difficulty was identifying that the first late payment does not count as a default but a penalty is triggered at 6 months. In addition, some candidates correctly stated the methodology of calculation, but did not perform a calculation as required by the question.

Q7: Most candidates made a reasonable attempt at this question, distinguishing between the arising basis and the options for the remittance basis. Well prepared candidates spotted that Overseas Workday Relief would not be available and that the employment contract would be key in establishing the correct tax treatment.

Q8: A surprising number of candidates struggled with the loan aspect of this question, often incorrectly calculating the average loan or failing to time apportion the benefit. Most candidates scored full credit on the car aspect of this question.

Q9: Most candidates correctly identified that Chris would be limited to purchasing £1,500 worth of shares. However a number did not identify that tax relief would be given at source on this purchase.

Q10: Many candidates scored full credit on this question. For those that did not, calculating how the underpayment would be dealt with caused most difficulty.

Q11: Many candidates scored full credit on this question. Some lost marks by failing to calculate the VAT due, or by only including calculations for the VAT control account.

Q12: This question proved challenging, with few candidates scoring more than 1 mark. Many candidates noted that the scheme made things 'simpler' without identifying why the scheme made the scheme administration simpler. Some candidates also noted that modern electronic point of sale systems could correctly identify the VAT per sale, which misses the point of this scheme as this is aimed at retailers who do not have such systems in place.

Q13: Many candidates scored full credit on this question. Some candidates forgot to take account of the primary and secondary NIC thresholds in their calculations.

Q14: Many candidates struggled with this question. Many concluded that this was a business to consumer transaction as Gayle is a friend/an individual, although the question clearly states that Gayle runs a business. A number of candidates did not clearly conclude on an answer, instead stating both scenarios (business to consumer and business to business), and not providing a place of supply as required by the question.

## Part II

### Question 1

Part 1 – It was surprising how many candidates ignored the specific wording of the requirement and instead of using the simplified methods, chose to revert to the standard method of partial exemption.



Calculations then based the input tax recoverable on this method instead. For those that did read the question properly, a significant number scored full marks.

Part 2 – This was quite poorly done. Candidates based their calculation on the normal selling price of £1,300 as opposed to the cost price of £1,026 which displayed a lack of understanding of the rules.

Part 3 – Many candidates did not attempt this part fully and did not explain the methods of giving discounts. Instead, the majority just calculated the net value of the supply and therefore missed out on a lot of the marks.

Part 4 – This part was done really well with a high number of candidates scoring full marks. This displayed that they are comfortable with the various schemes available for VAT. Time was wasted, however, as some candidates described the annual accounting scheme in detail either having misread the question or in the hope that marks would be awarded for an answer which wasn't relevant.

### Question 2

Part 1 – This was generally well done. Again this displays that candidates are very comfortable with the calculation of the deemed employment payment. However, there were a number of candidates who failed to deal with the grossing up of National Insurance properly and instead just took 12% and 2% of the resulting calculation.

Part 2 – This was a relatively straightforward requirement and a significant number of candidates scored full marks.

Part 3 – The performance on the law requirements has improved significantly over the past few sittings. Whilst most candidates can easily list the relevant tests; marks were lost as candidates failed to explain in full the meaning and nature of each test. They should be encouraged to develop their answers further.

Part 4 – Whilst most candidates managed to state that employees would present a P45, answers were relatively brief and failed to consider the situation if there was no P45 available. Therefore, a lot of marks were lost on this requirement.

### Question 3

Part 1 – Again, candidates were comfortable listing forms required and dates, but often failed to explain the relevance and contents of each form and therefore lost marks. There was also a lack of distinction between a P11D and a P11D(b). Candidates were able to show a basic knowledge on the payroll queries, but not much else.

Part 2 – Answers to this part were very mixed. Either full marks were scored or very few. A common mistake was to treat the soft skills training and the annual subscription to the professional body as taxable.

Part 3 – Again, there was confusion on the rules. Whilst a lot of candidates were able to distinguish between a temporary and permanent place of work, there was then mixing up of the rules when applying them to the scenario. This resulted in Dan's expenses being treated as non-taxable and Laura's being treated as taxable. This demonstrated a knowledge of the rules but an inability to apply them to a scenario.

Part 4 – Candidates failed to put themselves into the role of tax adviser for this part. Answers were very blunt and stated “we need to see if you have committed money laundering” or “to make us aware of any fraud”. The scenario was such that the candidate was writing back to a client and therefore the language used should have been less accusatory. Some answers conveyed that candidates were just guessing and had not got to grips fully with the ethics sections in their studies.

#### Question 4

Part 1 – A significant number of candidates treated the payment to the legal adviser as being fully taxable. On the whole this question was done well and a lot of candidates scored full marks.

Part 2 – Again answers were very brief and just produced lists like frustration, redundancy, PILON without explaining what each meant. Where the requirement specifically contains “explain”, a list as an answer is not enough.

Part 3 – A common misunderstanding on this part was treating the full £5,500 as a deduction in respect of the materials and mixing up the treatment of the scaffolding hire cost and the wear and tear on equipment (by treating them both as deductible). It was very apparent in this requirement that candidates either fully understood the rules or were just guessing.

Part 4 – This part was very poorly done. Candidates went down the route of discussing business turnover or compliance tests or just stating that “Gravel Ltd should register under CIS”.

### **Paper 4 Corporate Taxation**

#### Part I

##### Overall

A reasonable set of answers, but few candidates scored heavily which was disappointing.

Candidates need to ensure they answer the question set and ensure their script is legible. Full workings should also be given to support answers to ensure full marks can be awarded.

##### Question 1

A straightforward capital allowance question that allowed candidates to score heavily. Most candidates scored at least half marks, but common errors included;

- Giving the annual investment allowance already utilised by other group companies
- Allowances claimed on the front door
- The cold room treated as an integral feature
- The computer, if correctly treated as a short life asset, given a writing down allowance of 8%, or even 33.33%.

##### Question 2

A reasonable set of answers, but candidates often confused corporation tax with deferred tax when showing the accounting entries.

##### Question 3

A good number of candidates stated incorporation relief and explained how this operated. This was enough to gain half of the marks on offer but the rest of the question was poorly answered. Candidates referred to gift relief but did not specify that assets had to be transferred for consideration of less than market value.

A good number of candidates mentioned entrepreneurs' relief which does not defer a gain, whilst others mentioned roll-over relief which was not applicable to the scenario.

#### Question 4

A poorly answered question.

Few candidates recognised that two separate calculations were required. Many candidates merely stated that profits should be shared in the agreed profit sharing ratio.

#### Question 5

A good example of the need to ensure the question is read properly and to give answers to the question set. The requirements clearly state 'explain how' – which is very different to giving a calculation.

Many candidates just gave a calculation to arrive at a net deemed payment with no explanation. The reduced marks reflect this failure to explain.

#### Question 6

Generally well answered. A good number of candidates recognised the chattel rules and calculated the correct tax payable. Candidates should remember to show full workings to gain full marks.

#### Question 7

Another generally well answered question although few candidates gave note of when the Class 1A NIC should be paid.

#### Question 8

Again, a well answered question with the only major issue being that many candidates did not deduct rental income in arriving at the calculation of trading profits. The same candidates went on to add rental profits when calculating taxable total profits, which meant rental income was taxed twice.

Disappointingly some candidates seemed confused regarding the treatment of depreciation and capital allowances.

#### Question 9

Well answered, with most candidates identifying that entrepreneurs' relief applied to the gain. Those candidates not scoring full marks generally omitted the annual exemption.

#### Question 10

Most candidates recognised that Alf would be treated as receiving a dividend and would be taxed at rates relating to dividends. However, many stated Alf would be taxed on the value of the car rather than being taxed on the cash equivalent under the normal car benefit rules.

Many candidates failed to mention the company was a close company as it was owned by five or fewer participators.

#### Question 11

A straightforward question on accounting periods and filing dates. The only noticeable issue being the filing date for the second accounting period being given as 12 months from 30 June 2016 rather than 12 months from the date the accounts were drawn up to (31 December 2016).

### Question 12

Few candidates were able to explain how to establish the date of disposal which accounted for half of the marks for this question. This contrasted to most candidates being able to calculate the maximum group claim relief.

### Question 13

A poorly answered question which demonstrated that candidates do not give VAT much priority when studying for this exam. Few candidates scored full marks.

### Question 14

Many candidates made no reference to an SME surrendering a **loss** to gain a tax credit which was disappointing. Candidates tended to write everything they knew about research and development expenditure which was not required and earned few marks.

## Part II

### **Overall**

This paper had four Long Form Questions (LFQs) covering all of the taxes on this P4 syllabus, together with ethics and law.

The impression from the LFQ marking was that the quality of answers was below that seen in previous sittings. It was also notable that many more candidates than usual answered questions out of order and/or omitted Q1.

More detailed comments are provided below.

### **Q1**

This was a purchase of own shares question, with the requirement broken down into four separate parts, each with a separate mark allocation. The particular issues with respect to the question are:

- A significant number of candidates scored in single digits for this question
- Many candidates, whether better performing or not, conflated all of the requirements and wrote their own version of what was required in a single response
- Whilst it is a technical area, there were marks for reproducing legislation that could have been accessed in the exam
- Some candidates who clearly knew a lot of the technical content wasted lots of time talking generally without applying the rules to the information and numbers clearly given in the question
- Often the income/capital routes for option A and option B were reversed
- The distribution of the price minus the subscription value of £1 was absent in most scripts. Candidates tended to use a figure of £20
- A handful of candidates correctly calculated the capital loss for option B – when treated as an income distribution
- Few marks were awarded in part 4 – legal requirements. Confused answers were provided about board meetings/resolutions/deadlines
- Good knowledge about the treatment of distributions and the dividend allowance, when candidates decided that was an appropriate treatment

With the conflation of requirements, cross marking was quite tricky, given there is a maximum on several of the parts, but credit was given where it was found. This question was not intended to be a curve ball for candidates, but may have acted as one. Seven out of the 15 marks (requirements two and three) asked for the SPECIFIC tax treatment of options A and B, but candidates wasted time writing generally and the application was either absent or incorrect.

For those who chose to actually or effectively ignore this question, they could have written out rules from the legislation and gained some marks.

## Q2

In four parts, this question tested corporation tax. The first two parts were numerical – group relief and terminal loss relief and then written questions on anti-avoidance loss relief rules and branch versus subsidiary. Essentially this was a question of two halves, testing technical competence with regard to loss relief and then more advanced topics within the syllabus.

The particular issues are as follows:

- Part 1 required candidates to use group relief appropriately. Whilst there was a twist with preserving enough profit in one company to utilise double tax relief (and some candidates fully or partially understood that) the main test was to perform and show the group loss relief correctly. However, the overwhelming majority of candidates showed group relief in the wrong place in their calculations i.e. before qualifying charitable donations (QCDs). This was quite surprising as it should be a standard group relief proforma that candidates are taught. With one corporation tax rate to deal with on this sitting, there are no real group relief planning opportunities, aside from the preservation of DTR, but the basics seemed to slip.
- Part 2 required candidates to show terminal loss relief correctly. Again, the majority of candidates showed loss in relief in the wrong place i.e. after QCDs or against trading profit. There was also mention of the tax year i.e. 6 April and some candidates did not split the long accounting period correctly.
- Many candidates correctly grossed up the overseas rental income. However, a not insignificant minority confused the capital and interest treatment of qualifying corporate bonds, thinking the interest was exempt from tax.
- Part 3 – a proposed major change in the nature or conduct of the trade with regard to the anticipated value of trading losses. It was rare to find the precise wording used and also that wording linked with a change in ownership. Vague expressions about the trade continuing/changing/3 years were common. However, most candidates scored some marks and credit was given for a conclusion as to the view expressed with regard to the potential value of the loss.
- Part 4 – branch versus subsidiary. There were some excellent answers. However, some candidates still reversed or confused the analysis of the business forms and quite what entity was overseas or resident in the UK. Marks were given by picking through the answers appropriately.
- Only one candidate mentioned the rent under either category.
- Credit was given for the branch election and its consequences.

### Q3

This was a question in four parts covering corporation tax and VAT, with one extra mark about the income tax treatment of a restrictive covenant payment. The particular issues are as follows:

- Part 1 – many candidates answered this corporation tax question (what is deductible) by citing income tax rules. Whilst correct, they re-wrote their own requirement and did not gain many marks.
- Part 2 – the related company definition clearly warranted examining and there were some good general points. The application of the rules was generally disappointing. Only a handful of candidates mentioned the end of the preceding accounting period as a test.
- Part 3 – whilst this was not designed to confuse candidates it did expose the traditional confusion between the historic test for VAT registration and the “future” test. Follow through marks were given where possible, but many candidates mistook “the end of the month” or “31<sup>st</sup>” for a notification that was due 30 days after a particular month end. This was marked quite strictly as VAT deadlines involve looking at a variety of different dates which should be stated accurately.
- Part 4 – VAT and deductibility of certain payments. Most candidates who attempted this part scored decent marks by identifying the input VAT and making sensible comments about capital issues and capital allowances for corporation tax purposes.

### Q4

This was a three part question looking at chargeable gains and ethical issues.

The particular issues are as follows:

- Part 1 – Many candidates calculated the gain for the individual correctly. Holdover relief was identified but full marks were withheld for those that did not explain, as per the requirement.
- The substantial shareholding exemption was mostly identified and described correctly.
- Part 2 – A technical CGT lease question. An encouraging amount of candidates arrived at £237k as the revised cost of the property being sold after a rollover relief claim. The part disposal calculation on the grant of the short lease was a little more confused, but all correct elements were dissected from the candidates’ answers and given partial credit.
- Part 3 – This question described actions that constituted tax evasion although were often described as tax avoidance by candidates. Those who walked through the timeline of client communication and internal procedures did well. However, there seemed to be a return to phrases such as “report to HMRC immediately” and “report them” and “strike them off” which was of concern.
- It was more encouraging to see some candidates use the word “irregularity” and also consider the disclosure issues in the context of the engagement letter.
- Extra credit was given for additional points made here, but restricted when a candidate had not adequately explained the procedure for dealing with the client issue and jumped straight to a disengagement letter and possible interaction with future advisers.

## Paper 5 Inheritance Tax, Trusts & Estates

### Part I

- Q1 This question was generally answered well. Full marks were not obtained where candidates omitted to add the tax paid to arrive at the gross chargeable transfer.
- Q2 This question was answered well with most candidates obtaining full marks.
- Q3 Most candidates obtained full marks with well laid out answers. Some candidates included paragraphs addressing gifts to a trust which was not required.
- Q4 Overall this was poorly answered as candidates did not restrict the holdover for the connected gift at less than market value. A common error was confusion between which figure was the chargeable gain and which figure was the holdover.
- Most candidates did not correctly calculate the base cost for the trustees.
- Some candidates applied BPR or applied the wrong rate of CGT.
- Only a very small minority of candidates answered correctly that the holdover claim is only required to be signed by the transferor.
- Q5 In general this question was answered well and candidates gained most available marks. A minority of candidates applied BPR, although the question did not state the company was trading.
- The most common error was failing to recognise the shares had not been in the trust for the full 10 years and therefore making no adjustment for complete quarters.
- Q6 Where candidates recognised the question related to an Entrepreneurs' Relief claim, the question was well answered with only a minority making mistakes, such as the wrong Annual Exemption used. In a few cases candidates thought BPR should be claimed.
- Q7 This question was answered really well. However, candidates were unable to gain full marks where they omitted to calculate the IHT payable or omitted to deduct the charity donation in the IHT calculation.
- Q8 Some candidates lost 1 mark out of 2 for failing to calculate payments on account for 2017/18. Some candidates taxed the interest at the wrong rate, using 10% or 7.5%.
- Q9 There was a clear split between candidates who knew how to calculate the unused Nil Rate Band and those who did not. The most common error made was calculating the unused percentage available using the amount of NRB used on Steve's death rather than the unused amount.
- Q10 Some candidates recognised that the AE was not available for the second tax year as this was over 3 years after death. Many candidates did not include or refer to any AE and therefore did not obtain full marks.
- Q11 Most candidates obtained good marks for this question and were able to identify the key points.

Q12 The majority of candidates identified QSR was available. The common problem was the fraction as candidates seemed confused by the tax already paid. A few candidates deducted QSR before calculating the overall IHT, instead of as a deduction from the IHT due.

## Part II

Q1 Most candidates were able to prepare an exit charge calculation and state the correct IHT form and due date for payment, however very few picked up on the fact that the undistributed income should be removed from the total trust value used in the calculation.

The capital gains and PPR calculations were fairly well addressed by most, as was the ethics part of the question regarding letters of disengagement. However, explanations regarding the availability of holdover relief and the effect for the beneficiary were poor.

Q2 A very wide range of ability was displayed in the answers to this question. Candidates must ensure they are careful about the clarity of the wording of their answers as when they are ambiguous it can be difficult to award marks.

The majority of marks were awarded for the first three parts of the question with candidates on the whole displaying a good knowledge of what information is required for a 10 year charge, and about Business Property Relief.

Candidates struggled with part 4 and 5 of the question, although marks were awarded where valid comments were made.

Q3 The majority of candidates expressed their answer in letter format. This question was poorly answered on the whole, with a surprising number of candidates unable to explain how estates are subject to income tax.

Many candidates did not identify that it is possible to claim IHT relief if a loss is made on the disposal of quoted shares and, of those who did, most were unable to provide enough detail in order to achieve full marks.

The latter parts of the question received much stronger answers.

Q4 This question was fairly well answered on the whole, mainly due to candidates achieving good marks on the income tax computation. Quite a few candidates, however, were unable to apply the correct treatment to trust expenses, and the split of the basic rate band was often not identified.

Very few candidates were able to correctly identify the availability of the replacement of domestic items relief, and those who did were unable to give full details.

Candidates also struggled with the law element of the question. Most candidates were able to give basic details of how a settlor interested trust is taxed, with some displaying excellent knowledge.



## **Paper 6 VAT**

### Part I

Q 1 - Generally well answered. A high proportion of candidates identified the correct month of registration liability.

Q 2 - Several candidates were unsure of the VAT liability of renovation and conversion, but other parts were generally well answered.

Q 3 - Most candidates were able to describe the Capital Goods Scheme well, although several were unable to state the correct time for including CGS adjustments on returns.

Q 4 - Answered correctly by almost all candidates.

Q 5 - Several candidates were unsure about the recovery of VAT car leasing and client entertaining costs, but other parts were generally well answered.

Q 6 - Given this was a straightforward question, a surprisingly high proportion of candidates got the return and ECSL deadlines wrong. Some candidates seemed to have interpreted the question as asking for the deadlines for the return and ECSL for the VAT period following the current period.

Q 7 - Most candidates were able to state the conditions for joining the cash accounting scheme, but fewer candidates were confident in explaining which transactions fall outside the scheme.

Q 8 - Generally well answered, although a few candidates dropped a half mark by not showing the full calculation of relief available in part (b).

Q 9 - Generally well answered, though candidates should take care to differentiate between zero-rated supplies and outside the scope supplies.

Q 10 - Most candidates stated the correct accounting entries.

Q 11 - Most candidates stated the VAT grouping conditions correctly and generally most stated two valid advantages and disadvantages. Answers that just referred to 'partial exemption' as both an advantage and disadvantage were not credited unless the reasoning was explained.

Q 12 - Most candidates did not note the likelihood of the company demonstrating reasonable care in part (a) but those that said it was an unintentional error received partial credit. The rest of the question was reasonably well answered by most candidates.

Q 13 - Several candidates had difficulty with identifying the actual tax points, though most correctly identified the basic tax points.

### Part II

Q 1

This question did not cause significant difficulties for well-prepared candidates.

However, disappointingly, a sizeable number of candidates failed to identify that the place of supply of a restaurant meal is where the restaurant is located. In addition, even though questions about the

EU VAT refund scheme arise regularly on this paper, many candidates scored low marks for part 2 of this question.

#### Q 2

This question did not cause well prepared candidates problems and many scored highly.

Poor exam technique let several candidates down; although they clearly understood partial exemption (as evidenced by their calculations) they were unable to express themselves in words. Such candidates scored highly for part 2 of the question but did not pick up easy marks for part 1. As an example, many candidates wrote about partial exemption at length without actually spelling out that 'input tax incurred on a cost which is wholly attributable to a taxable supply is fully recoverable'.

#### Q 3

This question was, in general, well answered. Most candidates knew the criteria for determining whether a transaction was a TOGC or not and could apply those rules to the scenario given.

Relatively few candidates were aware that (1) VAT incurred on the costs associated with a TOGC was claimable according to the partial exemption status of the business being sold and (2) holding companies cannot register for VAT unless they either make supplies of management services or are part of a VAT group.

Many candidates answered the ethics question regarding dealing with complaints well.

#### Q 4

Again, this question was, in general, well answered. It was disappointing that despite the question clearly dealing with sales to business customers, many candidates wasted time writing at length about sales to non-business customers.

Although several candidates showed good awareness of the evidence requirements surrounding export documentation, across all the scripts knowledge on this area was patchy.