

ATT May 2022

Paper 1: Personal Taxation

Examiners' report

Part I

General comments

On the whole this section of the paper was answered well.

This section contained some tricky questions which required application of knowledge, not regurgitation of facts from a text book. These questions were counterbalanced with some straightforward questions which should have provided some relatively easy marks.

There are too many candidates who erroneously think that it is acceptable to provide a calculation which consists of a list/string of numbers with no narrative or explanation.

Question 1

This question was not answered well by the majority of candidates. The accrued income scheme has clearly not been studied or understood by many. However there were also some excellent answers.

Many forgot to state that the June interest received would be assessed in 2021/22 as well as the accrued income in relation to the December interest.

Common errors included not giving the accrued income dates and/or incorrectly calculating the time apportionment of the interest to 30 November 2021.

Many candidates did not deduct the accrued income from the sale proceeds for capital gains tax purposes.

Question 2

Disappointingly too many candidates either did not correctly calculate the rental income received under the cash basis and/or ignored the information that no election had been made, other than claiming flat rate expenses.

Reading the question carefully re the number of miles/trips was important as the marks available for the relatively simple calculation of the mileage allowance and toll charges were often carelessly thrown away.

Question 3

This question concerned Class 1 NICs and whether or not they were applicable, with explanations. Quite a few candidates failed to give any explanations.

Many seemed to think that Class 1A is synonymous with Class 1. Numerous candidates thought that an iPad is a mobile phone and therefore exempt, while others thought that it is a readily convertible asset.

The question did not state whether or not the termination payment was contractual or ex gratia. In such circumstances, making mention of an assumption, or better, consideration of both options is recommended/required.

Question 4

To gain the marks in this question, the conditions needed to be applied to the question. Marks are not given for regurgitated of facts from a text book.

Many candidates missed that the first purchase was before 17 March 2016 and therefore ineligible for investors' relief. Others spotted that fact, but then rashly stated that the next purchase on 14 July 2016 was also before 17 March 2016!

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Most candidates spotted that the shares bought from a friend, rather than directly from the company, were ineligible. Fewer spotted that although the final purchase satisfied all the conditions, they had not been held for 3 years by the date of sale and were therefore ineligible.

Finally, too many missed the last easy mark by not calculating the percentage of the gain that was eligible for relief based on their analysis which was the specific requirement of the question.

Question 5

A considerable number of candidates did not attempt this question.

All that was required was a discussion of the conditions that need to be satisfied for loan stock to be treated as a qualifying corporate bond, and then the consequential tax treatment of the loan stock in the question depending on the decision as to whether it qualified.

Those that realised this scored well, although some wasted time giving too much detail on how a normal share disposal chargeable gain is calculated.

Question 6

Most candidates realised that the late payment penalty was applicable, although some incorrectly calculated how late the payment was and therefore calculated too high a penalty.

A disappointing number missed that late payment interest was also payable despite the requirement specifically asking for it. For those that calculated some interest, many did so incorrectly, mainly due to getting the timing of the period from the due date of payment to the actual payment date wrong.

A few stated that there would also be a late filing penalty to pay, despite the tax return being filed on time.

Question 7

On the whole this question was answered well by the majority of candidates, while some demonstrated that they did not know the chattel rules sufficiently well.

Common errors included missing the 5/3rds rule on the painting or calculating it incorrectly, and restricting the loss on the antique which should not have been restricted.

Question 8

This question was answered well by the vast majority of candidates.

Minor maths calculation errors and thinking that Welsh taxpayers would have the same income tax liability as Scottish taxpayers were the only notable errors.

Question 9

A lot of candidates wasted time explaining the income tax treatment in the hands of the trustees (which was not mark earning) instead of answering the specific question which required an explanation of how trust income is treated in the hands of the beneficiary.

Question 10

This question was answered either very well, or badly.

There seemed to be confusion around which element of the premium related to income tax, as opposed to capital gains tax, and an amazing array of variations in the calculation of the deemed cost in the capital gains tax computation.

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Many candidates missed the requirement to state the rate of tax to be applied to the different elements, knowing that the individual was an additional rate taxpayer. Quite a few tried to hedge their bets by stating all the possible income tax rates and capital gains tax rates that could apply to anyone!

Question 11

A considerable number of candidates did not attempt this question.

Of those that did, the majority scored very well as they knew the rules for non-resident capital gains, or badly as they were unaware of any special rules and talked in general terms.

Some were not aware of the different rules that apply to non-commercial property from 6 April 2019.

Part II

Question 12

We would like to commend a lot of candidates who gave excellent answers to this question and scored very well.

Those candidates that scored very well methodically worked through each aspect of the question, showing their workings and applying it to the tax calculation.

Whether to round up or down for the car benefit on the emissions vexed a fair number of candidates, and also when to apply the rounding. Some missed the fuel benefit entirely, or did not realise the capital contribution for the car needed to be capped at £5,000, simply deducting the full amount Sally paid.

The very best candidates noted that not only was the company phone exempt, but that it did not matter if Sally made personal calls on it. Others thought that the personal calls meant the whole benefit became taxable.

Worryingly, some candidates still thought a personal allowance was due, despite the abatement having been in place for many years now.

It was notable that candidates who scored poorly overall, were the ones to make simple mistakes like not correctly time apportioning the equipment benefit for part of the year. It is usually obvious where candidates' attention to detail is not what it should be on small half marks such as this one.

As is often the case with part 2) that dealt with a law aspect, it was obvious where candidates did not know what the answer was, resorting to generically writing on reasons for redundancy and unfair dismissal, rather than answering the question posed.

Question 13

A wide variance in the quality of answers to this question.

As can happen with written questions, candidates can jump to writing as much as possible and giving generic answers, covering all aspects of PRR. This is a waste of time and effort – you must tailor your answers to the content of the question. The most common example of this was talking about all circumstances where deemed occupation could apply, but such absences require the property to be reoccupied, which did not apply to the circumstances of the question.

Candidates might be surprised to know the best answers were those that were in the main shorter, as they did not stray into writing generically about things that were not relevant to the question.

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A lot of candidates got confused thinking Lettings Relief applied and spent a lot of time writing about it for no marks. They clearly did not know what the rules were for Lettings Relief to apply.

Some candidates simply did not address the issue of the size of the garden. It was not obvious if they just did not know the rules, or simply forgot to address it.

The best candidates realised that electing the flat as the PPR would mean Salim could have two overlapping periods of PRR relief for the final 9 months as long as the house sold within the expected timeframe. A lot just said that it would be better to elect the house as it would have the bigger gain, not realising the last nine months would be exempt anyway.

Question 14

Parts (1) and (2) were generally well answered. The most common oversight was not to notice that BADR was available in relation to the sale of the EMI shares and that therefore there was a choice to be made re. the allocation of the annual exemption. Responses to part (3) were not so good with most candidates suggesting little more than that they would cease to act for Valerie.

Question 15

There were plenty of easy marks here for candidates and many gained lots of the marks available for the basic elements of the various tests. Application of these rules to the scenario was less successful, especially in relation to the UK home test where the existence of Clive's German home caused most candidates to conclude that he did not meet this test. In doing this they were overlooking the fact that the test was met in the period before the German property was acquired. Similarly, only a minority of candidates recognised that Clive's employment with Danes Ltd could render him UK resident for 2021/22 as a 365-day period that met the requisite rules ended in the tax year.

Candidates were better than in some previous sessions at setting out their answer in the prescribed format and so securing the mark for that.

A very small number of candidates took a short-cut in considering the third automatic overseas test by simply stating that Clive had exceeded 90 days in the UK. These candidates missed out on the marks available for detailing the other elements of this test.

An equally small number of candidates concluded that Clive had met the 2nd automatic UK resident test and so did not detail the 3rd automatic UK test. Again, these candidates missed out on some easy marks as the question clearly stated the need to consider each of the remaining automatic tests.

Part I

Question 1

The most common errors were to include all of the interest rather than just £500, to restrict the lease costs to 85% and to include rent on an accruals basis. A small minority attempted some type of adjusted profit computation.

Question 2

This was well attempted though few removed the VAT on the van. Those that did correctly remove the VAT on the van often also removed VAT from the cost of the cars. Many incorrectly applied a business use percentage to the FYA on the electric car.

Question 3

This was well answered although some candidates wrote far more than is needed for 4 marks ie did not focus on the scenario.

Question 4

Many scored full marks on this question.

Question 5

Some candidates wrote a lot about the fixed rate expenses rules for someone using their home for business purposes. Candidates should realise that the question will include the relevant information and there was nothing about how many hours Megan worked. Many candidates, when explaining the rules, thought there was only one occupant rather than two (excluding Megan in their calculations). It was clear that many did not understand that the £500 per month deduction reduced the allowable costs rather than being the amount deducted to arrive at the trading profit.

Question 6

Answers were generally well presented and most scored highly. The main error was incorrect treatment of the capital loss. A small minority only offset the trading loss against trading profits when carrying it back.

Question 7

A well attempted question.

Question 8

The answers were often very long winded and lacked clarity. Many wrote about what would and wouldn't be adjusted for in arriving at trading profit and were not clear about how items were being taxed as part of TTP.

Question 9

Many omitted the indexation allowance and did not split the gain between the business and non business use. Many just stated that the whole gain was rolled over or computed a figure for rollover relief that did not take account of the proceeds reinvested.

Question 10

This was well answered by the majority of candidates. The main error was the treatment of the redecoration and repair costs.

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Paper 2: Business Taxation

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Question 11

The basic rule was understood. Some candidates deducted the losses and annual exempt amount from £60,000 rather than the gain of £75,000 when calculating the optimal relief.

Question 12

Candidates scored well on this question. The tax point rules were well understood though many could not correctly compute the VAT amounts.

Part II

General comments

Overall candidates gave good quality answers to most parts of Paper II. Candidates occasionally omitted parts of some questions. These were generally the smaller parts of the questions ie accounts, law, ethics, VAT and national insurance

Question 13

Generally, candidates scored well on the first part of this question. The main issue that caused errors was the suit for the director, which most candidates disallowed on the basis that clothing was not wholly and exclusively for the business. If asked to show treatment of items, it is essential to point out which costs are allowable. For example: accountancy costs not being adjusted could mean either that they are allowable or the candidate doesn't know. The requirement specifically asked candidates to 'show your treatment' of each item.

Plant and machinery allowances were usually correctly calculated: the only error being to claim the super deduction on the laser cutter. Structures and buildings allowances were also generally correctly calculated: the only mistakes being the inclusion of the legal and planning costs or the failure to restrict the allowance to one month for the period that the building was in use.

The second part of the question was often well answered. Candidates were given full marks where they provided a short cut of the journal: crediting fixed asset cost and debiting cash/bank, accumulated depreciation and loss on disposal. Candidates who had less accounts knowledge were able to pick up half a mark for a debit to cash/bank alone.

Question 14

A lot of candidates were comfortable with the profit allocation, getting full marks. Errors included no time apportionment of interest and salaries, failure to allocate the profits to two periods and missing the reallocation of the notional loss.

Loss claims were well understood with most candidates getting full marks.

Law questions always seem to cause difficulties, with many candidates focussing on the provisions of the partnership agreement.

Occasionally the ethics part of the question was not answered, but where attempted, most candidates made the right comments and picked up full marks.

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Question 15

Candidates generally used the letter format.

Candidates can include irrelevant information: Sasha is stated as the sole director of the company, therefore it is sufficient to say she owns more than 5% of the company without referring to voting rights and rights to assets on a distribution. There was no indication in the question of any further investment and so references to business asset rollover relief, EIS and SEIS were not relevant.

Some candidates assumed that all assets were owned by Sasha personally and so didn't pick up to company aspects. The offices and shop were sometimes mixed up, but credit was given if candidates understood the principles.

Question 16

Some candidates were confused about the pre-trading expenses: adding them on as disallowable rather than deducting if allowable. Where the reasoning was given e.g. that the training was not allowed because it was capital in nature, then credit was given even if the cost had been added back.

There was a little confusion of the rules for travel for a self-employed person with those for an employee: referring to time spent at the site.

Basis periods were well understood, although some candidates used the first 12 months for the second year, rather than the tax year.

The VAT part of the question was mostly well answered, although many candidates added in the turnover for the company to determine if the threshold had been breached.

Most candidates commented that Class 2 and Class 4 were relevant. Marks were not given for giving the rates which are included in the tables given nor for discussing maximum contributions. Candidates needed to refer to the information given and consider the period for which Class 2 was payable and that profits were lower than the limits.

Part I

General comments

Performance was generally good enough. Lower marks were often due to candidates failing to answer the question asked, and instead replicating much irrelevant information from the learning materials. This may give candidates comfort in the exam that they are earning marks, but frequently this is not the case.

Question 1

Answers to the first part of the question on the conditions for bad debt relief was answered really well, indicating that candidates probably relied on the manuals. Answers to the second part of the question varied significantly. There was an absence of calculations relating to the actual VAT on the debt and some candidates thought that both debts would be entitled to the relief, which displayed a lack of application skills.

Question 2

This was generally well done. The electronic services supplied to Yue was an area which candidates struggled with; only a small number recognised that VAT would need to be paid with the majority stating that the supply was outside the scope of VAT.

Question 3

Construction Industry is a familiar topic for candidates. Some errors were made in the calculations by not including the lunch costs. The second part of the question was very well done.

Question 4

This question indicated that there is confusion amongst candidates generally between the treatment of contributions to occupational pensions and private pensions. A high number of candidates for both the charitable payment and pension contribution explained that the treatment was to extend the basic rate band without realising that both contributions qualified for deduction at source.

A significant number also based the NIC calculations on the amount subject to PAYE and not the gross salary which showed a lack of knowledge of the basic concepts.

Question 5

Candidates dealt well with the impact of benefits on the tax code. There was often an omission of either the "S" or the "L" in the actual tax code which led to a loss of marks.

Question 6

Overall, this question was very well done with candidates understanding that directors have annual earnings periods for NIC's. There were a small number of candidates who failed to realise this with the result that NIC was calculated on a monthly basis for the whole 12 months of salary which wasted a lot of time.

Question 7

Answers were often good enough although many candidates omitted one aspect or another. Some candidates gave the general rules for a date without applying these to give an actual date relevant to the scenario. This did not answer the question or score marks.

The question clearly stated the company did not payroll benefits. Therefore the several candidates who explained what would be the case if the benefits were payrolled, scored nothing for this.

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Question 8

There were very good answers to this calculation of apprenticeship levy. Common errors included the lack of cumulation of salaries from earlier months. Some candidates struggled to perform a calculation that did not start with the first tax month of the year. Some do not understand 0.5%. While arithmetic errors are usually not penalised, credit cannot be given for confusing 0.5% with 5% (or even 50%) as this indicates a lack of understanding rather than a calculator error.

Question 9

Some candidates handled the late filing penalties well. Few recognised the (higher level) point that one return was sufficiently late that the higher tax-g geared penalty arose (the relevant 24 months being measured from the end of the accounting period, not the accounting date).

However, many gave disappointing answers. Many ignored that there were two returns, despite this being stated in the question. Some wrote out all the filing penalty rules without application, and so could score little. Some wasted time on interest.

Question 10

Many candidates gave decent answers, although most could not correctly calculate average weekly earnings. Some detailed the statutory payments to be received when these were not asked for.

Question 11

Answers were either very good or omitted entirely, presumably by candidates who had not studied share schemes – this was the most-frequently omitted short form question. The question only asked for calculations, but many candidates felt the need to explain at length.

Question 12

Most candidates gave good answers but some only addressed one of the two issues. Some wasted time discussing the amount of any penalty – this was not an action (what the question asked for).

Question 13

Some candidates omitted this final short form question but those who answered generally gave decent responses. However, again some candidates answered a different question to that asked, giving the treatment if the rent had been reimbursed (it had not). There was occasional confusion regarding the period of 60 days, including thinking it related to the length of the visiting spouse's stay.

Part II

General comments

Lack of application was more pronounced in the LFQs where candidates did not perform as well as expected on the later questions. Again, issues included not answering the question and including irrelevant information. There were some omitted requirements towards the end of the paper, perhaps a cost of writing too much earlier on.

Question 14

The VAT parts of the question were answered relatively well. The accounting journal entries produced answers which polarised between excellent and accurate and very poor.

Part 1

Many candidates scored full marks on this part of the question. Those that didn't either included the capital item into the taxable monthly turnover calculation or stated the dates for registration incorrectly

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getting confused between the dates for registration and the dates for filing VAT returns and payment dates.

Part 2

This part was done exceptionally well; again, a reliance on the open book meant that candidates were able to pick up easy marks.

Part 3

As this topic is regularly tested, it was surprising that more candidates did not obtain full marks. Some candidates wasted time writing out in full the conditions of the simplified tests. Others based the recoverable percentage calculation on the VAT amounts in the question and not the taxable turnover. As in part 1, many candidates including the capital item as part of turnover for partial exemption purposes.

Some candidates then were mixed up between the de minimis test and the simplified partial exemption tests. However, the better prepared candidates did really well, and full marks were often obtained.

Part 4

Surprisingly, even though similar questions always feature on the Business Compliance paper, this part was poorly done. Some candidates only produced the accounting entries based on monthly figures but where the debits and credits were correct and balanced, full marks were given.

Some candidates produced only the VAT control account and showed only the VAT entries, without stating the entries for sales and purchases generally. A higher proportion than expected failed to attempt this part at all, which indicates that during revision not much attention is given to the accounting topics!

Question 15

Candidates are now more comfortable with basis periods as a topic and a high number of candidates scored full marks for the calculation of overlap profits and assessable trading income. This evidences that when new topics are introduced into the syllabus, it takes time for candidates to familiarise themselves with how the topic is to be tested over time.

Part 1

Whilst many candidates correctly dealt with the amount of overlap profits and assessable income, the main error made was that candidates failed to continue to calculate the tax liability and instead based their calculation for payments on account on the actual trading income and not the tax. This led to incorrect conclusions and a failure to consider the reduction in the payment on account.

Part 2

This part was very well done, showing a really good understanding of the benefit rules. Some candidates omitted the taxable benefit for the computer for the 3 months of the tax year and others pro-rated the car benefit by 6/12. Some candidates misinterpreted the scenario and explained termination payment rules in a lot of detail; clearly using the open book and not being able to apply their knowledge to the scenario set.

Part 3

A high number of candidates were awarded full marks on this section. A small number (as in part 2) just copied out the rules on termination payments and concluded that the pension amounts were covered by the £30,000 exemption. Others just concluded that pensions were exempt benefits without considering the impact of the contributions for annual allowance purposes. Candidates

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should ensure before answering that they have read the scenario in the question and answer the actual question set.

Question 16

Part 1

Many candidates gave decent answers for why the client should treat the individual as an off-payroll worker. Those who did not refer to evidence of employment status as given in the scenario, achieved lower marks.

Part 2

This part asking about the PAYE and NIC implications was not answered as well. Too many candidates copied out large quantities of the learning materials, not focusing on PAYE and NIC. Some marks could be obtained if, amidst all this, candidates correctly named which company did/did not pay the PAYE/NIC. This is another example of candidates failing to apply rules to address the requirement and relying too heavily on open book material.

A few candidates applied the rules for a small client, although limited marks were then still available for correct use of FPS etc. A few hedged their bets stating that a certain company both did and did not operate PAYE on the same amount. Such an approach can score no marks.

Part 3

This law element was not answered as well as expected. Perhaps candidates relied on an internet search yielding a mark or so, but not enough used the broader information in the Law Manual.

Part 4

Answers to this Class 1A calculation were usually very good. Again though, many candidates wrote far too much for this 'calculation'. The requirement did include the instruction 'showing clearly your treatment of each item'. However, that merely means include exempt items with a label and a dash or zero to show no tax is due, not write paragraphs to justify treatments.

Question 17

Part 1

This part was occasionally omitted. There were some decent attempts, but few showed very good understanding of CT61 operation. Common errors included a lack of, or incorrect, identification of the quarters involved and a failure to explain the return entries (here the explanation was required). There were some good calculations but some candidates confused gross and net amounts, and whether tax had been suffered by, or should be withheld by, the company concerned.

Part 2

This part on QIPs was occasionally omitted. Those who answered often did very well. Occasionally dates were incorrect or incomplete as no year was stated. Some candidates insisted on performing their own calculation of corporation tax, often applying a further 19% to the CT figure already given.

Part 3

There were some reasonable responses but generally answers were disappointing. Candidates were asked to calculate the s.455 charge, but usually wrote several paragraphs about this. Some also treated interest payments as paying off the loan, or over-complicated the calculation in other ways.

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Some candidates made errors calculating the interest paid, including forgetting to apportion this for three months. Some realised that these interest payments were a cost to the individual but even without this the calculation was required as part of the loan benefit. However, there were frequent errors in every aspect of the calculation of the loan benefit. Candidates also rarely calculated the tax on this (ie the cost of the benefit to the taxpayer as the question required).

Part 4

Answers to this ethics element were often good enough, although this part was again occasionally omitted. Some candidates were unaware of the Standards for Tax Planning and referred only to fundamental principles or to vague wrongdoing, while a few tried to cover every single Standard. However, it was pleasing that many candidates did use the facts of the scenario in their analysis.

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Paper 4: Corporate Taxation

Examiners' report

Part I

General comments

Overall most candidates performed reasonably well on this paper, although occasional questions caused issues.

Question 1

Some candidates claimed AIA on the expenditure on the electric lighting system when the question specifically stated that there was no AIA available for this company.

Where candidates correctly claimed the 50% special rate allowance on the electric lighting system, many then failed to show that the remaining 50% was transferred to the special rate pool when calculating the TWDV c/fwd,

As always with capital allowance questions, many candidates missed the disposal out or used the incorrect figure for the deduction from the general pool.

Question 2

There was a mixed response to this question. Candidates needed to make sure that they showed the treatment of each item, but in a lot of cases thought the VAT on the plant and machinery was treated correctly, they didn't say it was used in the trade and therefore lost ½ a mark.

Several candidates mentioned that Greenham Ltd could get a replacement invoice for the accountancy fees and allowed the VAT, but didn't explain that without it the VAT was not recoverable and therefore lost ½ a mark.

If candidates just said VAT on motor cars was blocked, they received the ½ a mark for the fact the VAT was irrecoverable, but to get the second ½ mark they needed to say it was blocked because there was a private use element. Quite a lot of candidates said that 85% of the VAT was recoverable and therefore lost both ½ marks.

Question 3

This question was relatively well answered, and most candidates picked up some marks. Marks were lost for not stating or making it clear that the staff entertaining was allowable or that the donation to a registered charity was a QCD and therefore a deduction could be taken in calculating TTP.

Question 4

Some candidates seemed to find this challenging. Common errors were saying that the bonus would be Dr to bank rather than P&L expense. Where candidates made it clear that the bonus would debit a bonus/salary/remuneration account they received the ½ mark even if they didn't make it clear that it was a Profit and loss account expense. If errors were made in the amounts ½ the marks for that part of the question were awarded.

Question 5

This question was answered well. Lots of candidates said that the deemed salary payment would be reported as employment income and a bonus ½ mark was given for this where available. Candidates often weren't specific that the income should be from relevant engagements in the deemed salary payment calculation but they weren't penalised.

Some candidates described how to identify whether the off-payroll working/Personal Service Company rules applied, however this wasn't what the question was asking for and therefore no marks were awarded.

Question 6

In general candidates didn't answer this question particularly well. It is important to remember what the question is asking for, in this case the requirement was to explain. Candidates didn't explain that the medical insurance was a non cash benefit and that was why it was subject to Class 1A NIC or that the high street voucher was classed as earnings so subject to Class 1 and therefore ½ a mark was lost for each of these explanations.

Question 7

This question was answered well. Marks were lost for not explaining that the final payment was on the 14th day of the final month or for saying that it was 3 months after the previous instalment which isn't always correct. Candidates that incorrectly stated that the company was large rather than very large still received some marks for correctly calculating the augmented profits and stating the payment dates for a large company.

Question 8

This question wasn't answered very well. Candidates could have scored more marks for ensuring they stated that Musikanten was non-resident. Many stated the rules but didn't apply them to the company or state they would need to do a corporation tax return and pay the corporation tax liability on the gain. Lots of candidates talked about double tax relief but no information was given in the question to imply that this was required and therefore no marks were awarded.

Question 9

This question was well answered. Common errors were incorrect indexation calculations (including not rounding to 3 decimal places) and missing the calculating of the base cost of the new asset. Where errors were made with indexation follow through marks were given for calculating the rollover relief and they only lost ½ a mark.

Question 10

Candidates generally did well on this question. If it was clear that the candidate was treating Sally as not associated with Rachel even if it wasn't specifically mentioned they still obtained the full mark. Candidates did not get any bonus marks for saying that the company would be close if they were under the control of any number of directors as no information regarding the directors was given in the question and they should be applying their knowledge to the specific scenario. The definition of control needs to be accurate and that mark was awarded only if they said over 50%. Many didn't mention any percentage or incorrectly said over 51%.

Question 11

This question was answered poorly. Many candidates correctly identified that this was a close company, and therefore received ½ a mark, but described the loans to participators regime, missing that the loan was from a shareholder. Others talked about the fact it was a loan relationship and what would constitute a trading or non-trading expense, however the question clearly directed the candidates to the date of payment being relevant and therefore I didn't award any marks for this. Candidates that detailed the reporting/CT61 requirements received no marks as this wasn't the requirement. Where candidates did identify that the loan from a participator was subject to specific rules these often weren't applied to the specific scenario and therefore lost out on some marks.

Part II

General comments

This was a well attempted paper.

Question 12

Part 1

When calculating the tax repayment in 6 months to December 2020 most candidates missed the point that the charitable donation would previously have been a deduction, reducing TTP and hence tax previously paid.

Part 2

Well answered, although some candidates missed the point that it is two years from the end of the **loss-making AP** (and just stated "...from the end of the accounting period.")

Also candidates should not confuse the claim date for Corporation Tax purposes with that for Income Tax purposes - they are not the same.

Question 13

Part 1

The requirement specified tax efficiency and cashflow. The majority of candidates did not address these issues – eg an overseas subsidiary would count for QIPS, the candidate should then go on to state that the result is tax being paid earlier – which did not meet the cashflow aim.

Part 2

Well answered, although the grossing up of the overseas income was tricky for a surprisingly high number of candidates.

Question 14

Don't forget the 1 x presentation mark – many candidates did.

Part 1

Well answered – there were a lot of marks available.

Part 2

A lot of candidates missed the requirement to state the losses carried forward – easy 2 x ½ marks missed. (Exam technique – ensure all parts of the requirements are answered.)

Part 3

This question was well understood – but candidates missed out on marks by not giving enough examples of why the Letter of Engagement is important.

Question 15

Part 1

Most candidates knew the rules for capital gains groups, and scored well. There was no need to describe "loss groups" – which many candidates did – and so achieving no marks and a waste of valuable time.

Part 2

Very few candidates realised that Ashburton and Burn were out of time to transfer the b/f loss; and so the alternative was to transfer the gain (whole or part) from A to B. Any candidate who understood this scored well, as this was a simple question if the transfer of the gain was dealt with.

Part 3

Almost all candidates missed the point that the loss on the warehouse sold in April 2022 was £450k; not the "book loss" it stood at when Cactus bought Elderwood.

Also very few dealt correctly with the £600k pre-entry loss.

Part 4

The requirement was for **tax** warranties and **tax** indemnity. Giving examples of non-tax indemnity – eg for a faulty product or an accounts warranty (examples from candidates) got no marks.

Part I

General comments

Scripts were of wide ranging quality. Candidates lost marks where they didn't fully explain what they were calculating, or by not applying the relevant facts to the question information.

Question 1

Generally well answered. Most candidates identified at least three requirements and related them to the Estate in the question.

Question 2

Generally well answered, although a lot of candidates spent time deciding whether Jason was deemed UK-domiciled, despite the question stating he was not UK-domiciled.

Question 3

Well answered. Most candidates identified the use of the grandson's allowance and tax bands.

Question 4

Candidates coped well with Part 1) but most candidates incorrectly stated it was the agents responsibility to complete the trust registration.

Question 5

This question was poorly answered. Very few candidates correctly identified the income, tax and distribution elements of the question. A large number of candidates went on to calculate the 10-year charge which was not a requirement of the question.

Question 6

This question was well answered, and most candidates identified the qualifying IIP, and the transitional series interest.

Question 7

The income tax calculation was dealt with well by the majority of candidates, although it was common for them not to gross up the annuity in the calculation.

Question 8

Most candidates correctly identified whether holdover relief can be claim in parts 1, 2 and 3. Very few candidates could confidently deal with the Jack Breen Trust distribution.

Question 9

This question was poorly answered. Candidates were not clear on the cost value for the property, or the period of ownership that could be considered. Few candidates identified that the annual exempt amount was not available, and could not calculate the correct rate of tax. In addition, many candidates did not answer the second part of the question, losing potential marks.

Question 10

Most candidates failed to identify that the trust was settlor-interested, and therefore couldn't correctly answer part 2 of this question.

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Question 11

This question was answered well, with most candidates applying the related party, and loss to donor rules.

Question 12

This question was answered well, with many candidates scoring full marks.

Part II

General comments

Although most candidates were able to attain the basic marks available, there was a wide variation in abilities.

Question 13

Part 1

Well answered on the whole, some candidates did not go into enough detail regarding the annual gifts to grandchildren to obtain all marks, and incorrectly identified that the sale of the painting at undervalue would be subject to CGT with no IHT consequences.

Part 2

Some candidates failed to calculate the CLTs to be taken into account for the nil rate band correctly. Fairly well answered.

Question 14

Part 1

Most candidate were able to provide a 10-year charge calculation and gain all the basic marks. Many did not identify that the ordinary shares in Build Ltd had not been held for two years and/or did not apply BPR to the preference shares. Most candidate did not correctly identify which of the settlor's CLTs in the seven years prior to creation of the trust should be taken into account with suitable explanations. Some candidates answers displayed very good knowledge.

Part 2

Poorly answered on the whole with quite a few candidates not attempting an answer.

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Question 15

Part 1

Where they identified that they were expected to consider post-mortem reliefs the candidates did fairly well, however some considered only BPR which wasn't in point. Not many candidates were able to fully apply the post-mortem relief rules and calculate the restriction correctly.

Part 2

Answers varied quite a bit. Candidates are encouraged to apply the answer to the question scenario a little more fully, for example acknowledging that in this scenario the funds are over £10,000 and would be held for over 30 days so it is those rules that should apply. Quite a few candidates did not attempt this part.

Part 3

Most candidates did not provide enough detail in order to obtain the full 5 marks available but were able to identify that GDPR was in point and provide some analysis of this. Again, candidates should ensure they apply the answer to the scenario in the question. The majority of candidates attempted this part of the question, but a fair few did not.

Question 16

Part 1

Very well answered on the whole. A few basic errors in pre-rating the rental income.

Part 2

A very high number of candidates did not attempt this part of the question or did not obtain any marks. Very few candidates correctly calculated the distributable income and also provided R185 figures.

Part 3

Fairly well answered on the whole. Candidates should ensure they provide a full explanation of why they may or may not have included items. For example not many identified that they had not attempted a CGT calculation for the distribution of the Choc Ltd shares as they were distributed as part of the residue and therefore this is not a CGT disposal.

Part I

General comments

Candidates generally performed well in this part of the exam paper. However, a common theme was the failure to read and understand the command verb in the question. There is a distinct difference between 'state' the VAT liability and 'explain' the VAT liability of a transaction - the former is asking for just a short response e.g. zero-rated; the latter requires the candidate to state the liability and explain why the transaction is charged at that rate. Many candidates lost marks as a result.

Question 1

Candidates generally scored very well on this question, although the shortbread and 'Jaffa Cakes' appeared to pose a problem for some candidates.

Question 2

This calculation question was answered well although a number of candidates erroneously wrote that the output VAT on assets on hand at deregistration is only due if the VAT amount **for each item** is greater than £1,000 (rather than collectively).

Question 3

The first part of this question was answered well, with most candidates fully aware of the process for opting to tax. Many candidates went on to waste a lot of time by stating the effect of an option to tax, the revocation period and the extent of the option in terms of linked buildings etc. The question did not ask for any of this so no marks were gained.

The second part of the question was answered extremely poorly. In an open book exam it should be expected that there will be questions requiring an element of practical knowledge application, and this was one such question worth 2 marks. Only one or two candidates knew that HMRC has discretion to accept a belated notification of an option to tax, and the key to this was that Fresh and Natural Co had always charged VAT on its rental invoices. For candidates without practical experience of belated notifications all this information can be found in VAT Notice 742A at 4.2.1.

Question 4

Many candidates were able to correctly identify the VAT liability of each supply. However, a large percentage of these only achieved half marks because the question clearly asked them to 'explain' the VAT rate applicable and not just to 'state' the VAT liability.

Question 5

Candidates scored high marks on this question. The main point of difficulty for some was whether Foxtrot's predicted turnover would exceed £1.35M or not. Some erroneously included the disposal of the factory fixtures and fittings and, surprisingly, a large percentage thought that zero-rated exports should not count as taxable turnover.

Question 6

In the main this question was also answered well but, as before, some candidates just stated the VAT liability with no attempt to explain why. Some candidates struggled with the freehold sale of the car park with many believing that this constituted the provision of car parking facilities and therefore standard-rated.

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Question 7

This question was answered extremely poorly with only one or two candidates scoring the full four marks despite a generous marking scheme. The principal issues with candidates' answers were that i) candidates simply regurgitated the Making Tax Digital rules with no application to Jethro at all and ii) they concluded that the process was not compliant with the MTD requirements due to either the till reports being entered manually into the software or the existence of paper purchase receipts. This demonstrates a real lack of understanding of how MTD works in practice. Candidates are strongly advised to read through the examples at the end of VAT Notice 700/22.

Question 8

This question was answered well demonstrating candidates' sound understanding of the place of supply of services rules.

Question 9

Candidates scored well on this question and were generally aware that supplies between England and Northern Ireland are treated as domestic supplies.

Question 10

This question should have yielded easy marks but many candidates made simple errors. One recurring error arose for Q/E Sep 21 - HMRC do not collect penalties less than £400 at the 2% rate. Another error was to charge a penalty for Q/E Dec 2021 even though the VAT was paid on time. The third and most frequent error was to charge the 10% rate for Q/E Mar 2022 even where the candidate had stated that no penalty was due for Q/E Dec 21.

Part II

General comments

This part of the paper clearly presented a challenge for many candidates. Common errors were failing to read the questions carefully and or not addressing the specific question posed for example by calculating liability rather than net income, considering new ways of reducing VAT liability rather than dealing with those which had been set out in the question and copying general rules about a particular type of transaction rather than addressing the specifics in the question. Candidates should pause to make sure that they have properly understood what is being asked of them before launching into their answers.

Question 11

Most candidates were able to grasp the basics, but many struggled with the more difficult aspects such as the retention of the façade which would deny zero rating and the application of changed number of dwellings rules. The input tax blocking order was also difficult for some. Hardly anyone considered that the reverse charge would apply to some of the construction services.

Question 12

This appears to have been a challenging question for most candidates. As stated above, many failed to identify that the question was asking for a calculation of net income, not comparing the amount of VAT due under the various options. The most common errors included not identifying that the author was a low-cost trader (this should be the first question to ask), not identifying the first-year reduction in rate and calculating the flat rate liability on the net income.

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Paper 6: VAT

Examiners' report

It was a tricky question, but a careful reading of the question and a methodical approach should have given candidates a good score.

Question 13

A better question for most with the key points of TOGC rules appearing to be understood. Candidates gained nothing by simply reciting what the general rules were – they have to be applied to the specifics of the question. Some lost easy points by not fully answering the question which asked candidates to identify what output tax would be shown on the VAT return. The effect of the option to tax in a TOGC was not well understood and as above, many failed to work through the various options and state how they would each be affected differently. Sometimes candidates need to remember to state the obvious – if the sale is by way of a share sale, for example, the option to tax will have no impact – one mark!

Question 14

Deciding which entities could be in the group was easy for most, though the most common error was not identifying that Ashraf himself could be a group member. Most candidates identified that the group would become partially exempt but failed to point out that there would be no savings on the reverse charges. For reasons which are not clear, a small number of candidates decided that they would spend their time thinking up new ways of saving VAT rather than considering those which were laid out in the question.