

# **The Association of Taxation Technicians**

## **Examiners' Reports**

**November 2018**

### **ATT Paper 1 Personal Taxation**

#### **Part I – Short form questions**

Many candidates deserve praise for demonstrating they clearly had worked hard and were knowledgeable on the Paper 1 syllabus. There were some excellent answers provided this session.

##### **Question 1**

In the main, the question was answered quite well, but several candidates lost marks by only answering the Capital Gains Tax or Income Tax point, but not both. They also wrote about losses when it was stated it was sold at a gain. Candidates are reminded no marks can be awarded if they have provided an answer to a different question, even if what they have written is technically correct.

Candidates are also reminded to read the question carefully – lots thought £50,000 was the market value, not the capital gain. As a result there were lots of generic comments rather than being tailored to the question.

Surprisingly quite a few candidates mixed up EIS rules with those for share schemes.

##### **Question 2**

Some candidates mixed up the penalties applying after 3 and 6 months, but generally the question was answered very well, with many scoring full marks.

##### **Question 3**

Whilst many candidates did very well, a significant number calculated the tax due, rather than explaining how it worked as per the question. The best candidates remembered to outline the tax at source, with the majority correctly explaining the extension of the basic rate band, but forgetting the relief at source aspect of tax relief for gift aid.

##### **Question 4**

It was evident that some candidates knew all about short tax returns and others knew very little. Many candidates only provided an example of who could use a short return, OR an example of who could not. The question clearly stated that they should give one example of each.

Some of the answers were too vague to score any marks, for example "Someone with property income cannot complete a short tax return" or "a sole trader cannot complete a short tax return".

##### **Question 5**

This question was answered very well, with candidates demonstrating that they knew the rules. Mistakes occurred, where candidates did not appreciate that the mortgage interest restriction existed, or used the wrong percentage. Quite a few candidates also failed to spot that the letting agent amount was stated per month and so did not multiply it up to give an annual figure.

### **Question 6**

It was obvious which candidates had found the conditions in the legislation. For those that appeared not to know where it was in the legislation, they often evidenced good knowledge, but missed the basics, such as it needing to be furnished, thereby missing some easy half marks.

The biggest mistake was stating you cannot let an FHL for more than 31 days to the same person.

### **Question 7**

Performance on this question was split. A lot got half the question right and correctly calculated £43,000, but then stopped. Many candidates did not know about the foreign-service rules.

### **Question 8**

The answers produced varied significantly. Those that knew about the pre-owned asset charge knew it was a simple calculation and obtained full marks. Many used the market value of the property and calculated a massive benefit that they thought was taxable. Clients would not have been impressed!

As is often the case, a significant number of candidates lost some marks by failing to identify that the amounts needed to be pro-rated for the relevant number of months.

### **Question 9**

The majority of candidates scored good marks on this question, not always full marks as they missed the odd half mark by calculating the number of months incorrectly, which is always understandable given the pressure of an exam situation. The most common mistake was not spotting that the before and after requirement was not satisfied for the period travelling.

Of more concern was the many candidates that reduced the base cost by the period covered by PPR, not the gain itself, and also that some still thought the final 36 months counted as PPR.

### **Question 10**

A poorly answered question. An incredible number of candidates thought this was a Statutory Residence Test question and therefore they scored no marks. As mentioned previously, candidates are reminded that even if they write a lot of technically correct information that does not relate to the question, no marks can be awarded.

Quite a few spent time discussing domicile, which was not relevant to the question.

### **Question 11**

A poorly answered question. This is common where based on information in the Law manual. A huge number of candidates answered the question as if they were joint tenants, not tenants in common.

Candidates need to appreciate you cannot presume an individual will have left a will, hence intestacy formed part of the answer.

### **Question 12**

Where candidates spotted the taxpayer was Scottish and so there was a different basic rate band in the calculation, they often scored full marks.

Some candidates were confused about how the dividends were taxed, or were not aware that the first £5,000 are taxed at 0%.

## **Part II – Long form questions**

### **Question 1**

This question involved a straightforward income tax computation with two additional written parts which were connected to the same scenario, but could have been answered in any order. All candidates attempted the question and as we would expect with such a question, the majority scored well.

#### **Part 1**

There were some very high marks gained for this income tax computation, but surprisingly none of the candidates obtained full marks. There were many subsidiary workings required where small mistakes could easily be made, and great attention to the detail and the wording of the question were vital to success.

Common errors included failure to:

- select the correct bonus payment to be assessed in the tax year
- calculate the use of the second mobile phone as 20% of the cost and/or time apportion the benefit for only 11 months use
- restrict the maximum capital contribution towards the car to £5,000, and/or deducted it from the benefit calculated rather than from the list price
- time apportion the car benefit
- include the kitchen but exclude the bathroom in the provision of living accommodation benefit (many calculated the 20% 'use of assets' benefit for one or other, or both instead, and a significant number incorrectly time apportioned the 'cost' used to calculate the benefit due to the bathroom being completed during the year)
- halve the bank interest received
- adjust the personal allowance
- extend the basic rate band
- state the benefits that are exempt (despite it being a specific requirement of the question).

Many incorrectly:

- calculated a fuel benefit
- taxed both phones or exempted both phones and quite a number of candidates deducted £500 from the benefit
- used the market value of the living accommodation rather than the cost
- deducted pension contributions in a variety of wrong places
- deducted the amount collected under PAYE which was not necessary as the requirement was for the income tax liability (not income tax payable).

The most worrying and disappointing aspect of the answers received however was the belief by a large proportion of candidates that a few columns of numbers with no heading, no title, no reference to the tax year and absolutely no narrative whatsoever would be an acceptable way to present a formal income tax computation for review.

Future candidates should be advised that there is an expectation that their work should be presented in a form suitable for presentation to a client. They should also read the requirements carefully, and pay particular attention to the detail/dates and other information given.

#### **Part 2**

This part, for three marks, required the identification of elements of employment income that are subject to Class 1 versus Class 1A National Insurance Contributions, and a statement of who is liable.

Most candidates answered this part and scored well. Poor answers failed to clearly identify the different types of employment income stating that 'employment income was liable to both Class 1 and Class 1A' with no further detail.

Many decided that interest and dividends were liable to Class 1 NICs, and quite a number were not sure of the treatment of the quoted non-tax advantaged share options.

### Part 3

This part, for two marks, was not attempted by a significant number of candidates.

Those that did attempt it either knew the rules and obtained maximum marks, or clearly demonstrated that they did not know the legal statutory notice period rules. Many incorrectly concluded that due to the contract of employment stating that there was one month notice, Liam was not correct and that he had been given sufficient notice by the company.

### Question 2

Surprisingly, more than half of candidates got the rights issue calculation the wrong way round although this only dropped them  $\frac{1}{2}$  mark. The allocation of original base cost across the components of takeover consideration was done reasonably well. A sizeable minority had a chargeable gain arising immediately on the non-QCB, alongside the gain on the cash and there was some general confusion about which loan note gave rise to a frozen gain. In part (b), the majority of candidates recognised that Entrepreneurs' Relief would be available. However only a very small number noticed that this would only be available in relation to Andrew's receipt of cash unless an election was made to dis-apply the share for share treatment.

### Question 3

The question was generally poorly answered. Very few candidates were aware that it is possible to claim a capital loss on a loan to a trader. In relation to the investment into Anaconda, there was too much focus on the Income Tax relief that Alice had failed to claim rather than the relief that she could now claim for her loss. With regard to the diamond necklace, many candidates were too easily led by Alice's suggestion that a loss was available on the disposal of the necklace rather than thinking through the implications of an insurance receipt. For the gift of tables, most candidates recognised that these were connected persons and that disposal therefore occurred at market value, however few recognised the need to aggregate the two disposals.

### Question 4

This question had two parts addressing the topical area of personal pensions, and the annual allowance charge (including the tapering of the annual allowance).

Attempts at this question were either excellent or weak. Sadly, a significant number of candidates did not attempt the question.

#### Part 1

Some candidates clearly knew the rules and scored near perfect marks. Unfortunately some very poor answers were also produced which demonstrated a clear misunderstanding of the topic.

Many confused the 'threshold limit' and the 'adjusted net income' limit, how to calculate them and the consequences of exceeding or falling below the limits. Accordingly, a wide variety of alternative answers were offered. Method marks were given in all cases where it was obvious what the candidate had done, even if a mistake was made in the early stages.

With this question it was important to apply the rules to the particular scenario for Arthur and

the requirement was specifically 'to explain' as well as calculate. The receipt of a list of numbers with no narrative clearly does not satisfy the requirement and scores very little. Similarly, pages of narrative detailing everything the candidate knew about pensions did not score well. Many did not address the specific things required in this part and gave an answer to a different question!

Many candidates also tried to assess Briony's pension position despite it not being required and insufficient information being supplied in the question to do so.

#### **Part 2**

Responses to this part on professional ethics were varied. Many wrote very little and had just one idea, a large number of candidates did not attempt this part at all and a few wrote a long essay which was over the top for two marks and nonetheless ultimately only contained a couple of valid points.

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

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

#### **Part I – Short form questions**

The short form questions contained a higher proportion of questions requiring written answers than in recent exams. Candidates should be aware that the balance of written versus computational questions does vary from one session to the next. However there is some evidence that the increase at this session may have caused additional time pressure for candidates. This was taken into account during the marking process.

#### **Question 1**

Although the majority of candidates stated correctly that training of employees and relevant courses for John while trading were allowable, many candidates thought training courses and expenses incurred before he started trading would qualify as pre-trading expenditure and would be treated as having been incurred on the first day of trading. There were also a few who stated that the pre-trading courses were allowable but not the courses once he started trading (as he was already 'qualified'). The majority stated that the employee's training was allowable although there were a few who thought that the expenses were not allowable as he was a family member.

#### **Question 2**

The majority of candidates stated the rules for joining and leaving the cash basis correctly although there were a few who appeared to confuse the rules with VAT cash accounting.

#### **Question 3**

Although there were many correct answers, calculating the amount of rent and lease premium deductible was a challenge for some. The majority calculated the amount of rent due but some failed to calculate the capital element of the lease, or if they did, they used that as the allowable amount. Many calculated the revenue proportion of the premium correctly (£41,000) but then failed to spread this sum over 10 years and restrict to six months.

#### **Question 4**

Candidates generally stated that there were two returns due and stated the due date correctly but many, although stating that there was an initial penalty of £100, failed to state that there was a penalty for each return. They then unnecessarily explained the penalties due if the returns had been later than the date stated.

#### **Question 5**

The majority of candidates stated that the gain would be apportioned to the partners but there were also many that stated that Simon would be charged on the gain and explained in some detail that he would be due entrepreneur's relief.

#### **Question 6**

This question was well answered by many. Where errors were made, the most common was failure to restrict the cost of the lease correctly.

#### **Question 7**

Many candidates failed to identify the issue in the question i.e. that Claire and the partnership were separate taxable persons and so treated the jewellery business and the cafe as being associated and therefore took the joint turnover into account when considering whether Claire should be registered for VAT.

#### **Question 8**

The majority of candidates quoted the level of turnover under which a business may de-register but were too brief when giving examples of compulsory deregistration.

#### **Question 9**

This was generally well answered although some stated that 'one-man band' companies and/or the 'sole-traders' did not qualify for employment allowance. Many reduced Susan's liability by the amount unused in the previous year.

#### **Question 10**

A few candidates omitted to mention the rate of National Insurance Contributions due if the upper secondary threshold is exceeded but for most candidates this appeared to be straight forward, with many gaining full marks.

#### **Question 11**

This was another well answered question with the majority gaining full marks. The main area for error was the amount of the first payment on the loan. Some candidates used the full annual amount rather than the monthly amount quoted in the question.

#### **Question 12**

A question with a high standard of answers, the majority stating four examples without problems.

#### **Question 13**

This question was poorly answered with only a very few stating relevant examples. The majority of answers appeared to be guesses with a few explaining how to calculate depreciation.

## **Part II – Long form questions**

Generally these were answered well, although some candidates had extremely small handwriting. This can make it very difficult to mark.

Candidates often referred to companies when they actually meant unincorporated businesses – something to be wary of.

### **Question 1**

Many missed out part 4 (company law) which was a shame because many candidates answered this well, even just using common sense would probably have given them some marks.

Some candidates missed out on easy marks in part (a) because they failed to explain the treatment as required by the question.

Few candidates handled part (b) well.

### **Question 2**

Many candidates did not identify that loss relief against other income was restricted. Whilst many others restricted it incorrectly.

### **Question 3**

Candidates tended to fall into two categories – those who answered it well and those struggled to know where to start. Some candidates calculated depreciation and amortisation that was unnecessary and wasted time.

Only a few candidates could write coherently about goodwill.

Many candidates showed their practical experience in dealing with fees/fee quotes and fee disputes in answering part 3.

### **Question 4**

Many candidates wasted time calculating indexation allowance or gains/losses on items that were not chargeable to Capital Gains Tax.

Part 2 was poorly answered.

## **ATT Paper 3 Business Compliance**

## **Part I – Short form questions**

### **Question 1**

Most candidates scored at least half marks on this question. Many candidates did not round up the recoverable percentage. Some correctly calculated the taxable and exempt amounts and the amounts attributable to taxable/exempt supplies, but then did not apply the de minimis to conclude on the amount of VAT recoverable.

## **Question 2**

A surprising number of candidates treated statutory redundancy in the same way as the contractual PILON. Many candidates incorrectly treated the car element of the calculation, treating it in the same way as the PILON. The majority of candidates scored at least 2 out of the 3 marks available.

## **Question 3**

This question was generally well answered, with most candidates scoring at least 3 out of the 4 available marks. The main area of difficulty was the treatment of the season ticket. A small number of candidates did not calculate the National Insurance Contributions correctly, calculating it as if it was a 'normal' employment payment.

## **Question 4**

The majority of candidates correctly identified the availability of the £8,000 relocation allowance, and correctly identified the excess mileage payment. However many candidates incorrectly treated the £3,000 mortgage deposit in the same way as the £9,000 relocation fees and treated the £8,000 exemption as if it was available on both payments. Many candidates either failed to note how the payments would be subject to tax, simply stating that they would be subject to income tax, or did not correctly identify whether the payment would be reported on Form P11D or whether it would be taxed and reported via payroll.

## **Question 5**

Candidates generally struggled with this question and answered the question as if the business was registering for gross payment rather than dealing with the specifics of the annual scheduled review.

## **Question 6**

Many candidates did not identify that the allowance was not available to public sector bodies. A small number of candidates thought that the allowance could be offset against both PAYE and NIC liabilities.

## **Question 7**

This question was generally well answered by candidates.

## **Question 8**

Most candidates scored full marks on this question. A small number incorrectly stated that the employee pension contribution would extend the basic rate band, or that tax relief would be restricted to £3,600.

## **Question 9**

Most candidates scored at least 2 marks on this question. The two points which were generally missed were that the debt could not have been sold on, and that the value being written off could not be more than the selling price.

## **Question 10**

The majority of candidates struggled with this question. Many did not identify that there would be no penalty for the first late return and calculated the penalties due as if the payments were late, rather than the return being late.



### **Question 11**

Many candidates scored full marks on this question. For those that did not, this was usually due to incorrectly identifying the VAT rate on the first two supplies (smoking cessation and residential construction).

### **Question 12**

The majority of candidates scored full marks.

### **Question 13**

The majority of candidates scored full marks.

## **Part II – Long form questions**

### **Question 1**

#### **Part 1**

The majority of candidates scored full marks on this requirement. Those that did not either said the first sale was exempt, which is technically incorrect or failed to recognise it was a dispatch.

#### **Part 2**

Candidates showed excellent knowledge on the rules for identification of basic tax point and the override provisions.

#### **Part 3**

Again, candidates showed excellent knowledge of the default surcharge regime and this requirement caused no problems.

#### **Part 4**

A common mistake on this section was candidates failing to distinguish between the reduced rate and standard rate supplies and so leading to errors in the amounts recorded in the T account.

### **Question 2**

#### **Part 1**

Candidates often failed to realise that the maximum amount deductible for the capital contribution was £5,000. The use of the private jet caused some confusion with candidates incorrectly pro-rating the value of the benefit.

#### **Part 2**

Candidates performed very well on this part. A common mistake was identifying 31 January as the due date for payment showing confusion between the self-assessment and employer deadline dates.

#### **Part 3**

Whilst candidates discussed knowledgeably the rules on forms P11D and forms P11D(b), they were often confused between forms P46 and P60.

#### Part 4

This part was quite poor. Candidates were clearly confused by the difference between unfair and wrongful dismissal with the latter featuring in many answers. The automatically unfair reasons for dismissal tended to focus on pregnancy and the various different types of discrimination without focussing on reasons for trade union involvement, or, for example, dismissal for whistleblowing.

### **Question 3**

#### Part 1

A lot of time was wasted by candidates on this requirement, outlining the conditions which must be met for the SAYE and EMI schemes. The question specifically focussed on the income tax implications on grant and exercise and very few considered these in detail.

#### Part 2

There was a distinct lack of knowledge on the apportionment and point of sale scheme. Candidates instead discussed the annual accounting and cash accounting schemes. The latter two are often tested in this paper so the focus on different schemes caused problems. However, retail schemes are also part of the syllabus and so a question focussing on these should not be unexpected.

#### Part 3

Most candidates discussed knowledgeably the rules on FPS and the due dates. Missing from a high number of answers was the consideration of when the bonus would actually become taxable by considering the different dates in the question for entitlement and payment.

#### Part 4

A high proportion of candidates scored well on this part. For those that did not, there was a distinct lack of knowledge and instead a focus on the rates of statutory maternity pay; another frequently tested area. Shared parental leave is part of the syllabus but its inclusion in the exam did take a few candidates by surprise.

### **Question 4**

#### Part 1

This was answered exceptionally well. The inclusion of the remittance basis did not confuse candidates and the majority assumed that the employees would still be domiciled in Zoltar and therefore, the remittance basis could be applicable if they had income in Zoltar which was not remitted to the UK.

#### Part 2

The majority of candidates performed well on this question. The poorer scoring answers assumed that the cost of travel was a taxable benefit.

#### Part 3

Excellent knowledge of the rules on domicile was displayed. Candidates showed no evidence of confusion, and the majority assumed that the secondees would still be domiciled in Zoltar.

## Part 4

Answers to this part varied in standard. Some candidates thought that commission was strictly prohibited and therefore failed to score marks in this section. The better scoring answers showed an in depth knowledge of the Professional Rules and Practice Guidelines.

### **ATT Paper 4 Corporate Taxation**

#### **Part I – Short form questions**

The short form questions were generally well answered with many candidates scoring good marks. However it did expose some areas of weakness.

##### **Question 1**

An easy and straight forward lead in to the paper. Nothing tricky and so answered well. The common errors were to deduct the original cost of the disposed asset, not the proceeds; and the failure to maximise allowances by not attributing the AIA to the special rate pool addition.

##### **Question 2**

This proved to be very tricky for the majority of candidates – many did not attempt it at all. Common errors included the following:

- The question stated that the shares did have EIS status so there were no marks for reciting the criteria for obtaining EIS
- The question asked for Capital Gains Tax deferral – no marks were awarded for explanation of Income Tax relief
- Very few candidates stated that the investment needed to be by subscription

##### **Question 3**

Again, this question was not answered well. A surprising number of candidates seemed to confuse input and output VAT. The question clearly asked for admin advantages and so a discussion of an assumed cash flow advantage did not gain any marks. This question identified a lack of basic VAT knowledge.

##### **Question 4**

This question was clearly based on the example in the manual so the well-prepared candidate should not have had a problem. Unfortunately, a few did!

##### **Question 5**

The question asked for current period losses so no marks were awarded for brought forward losses.

##### **Question 6**

This question generally scored high marks. Most candidates discussed the irrevocable election, and the management and control issues. The only issue where more care was needed was for UK tax issue. The discussion of overseas tax, other than in the context of DTR, scored no marks.

##### **Question 7**

This was a straightforward question. Many scored full marks but a worrying amount stated that individuals have indexation allowance. One or two candidates thought an individual has substantial shareholders exemption.

### **Question 8**

A well answered question by most candidates.

### **Question 9**

The question did not ask for quarterly instalment payment dates. So no marks were awarded for this to the substantial number of candidates who did state them. A half mark was given for stating that the £1.5m was also restricted for short accounting periods.

### **Question 10**

Most candidates were able to attempt this question, although not all understood that the calculation needs to be done both under Income Tax and Corporation Tax rules. A lot of candidates missed the point that interest was not income, it was an expense.

### **Question 11**

This was well answered. The only recurring omission was that David was connected to Jeff and Angela. The s455 element was very well attempted. This was not surprising as it is a hot topic and many candidates will be dealing with this issue at work.

### **Question 12**

Given that Personal Service Companies are a recurring theme in this paper, it was not surprising that most candidates gained most of the marks for the deemed salary. However not many dealt with the non-availability of the employment allowance.

## **Part II – Long form questions**

There seemed to be a broad range of marks and many excellent scripts. Many candidates scored maximum marks on individual parts of questions, but that ranged across the whole paper.

### **Question 1**

#### **Part 1**

The majority of candidates:

- Correctly calculated capital allowances
- Included the bank interest and UK rent
- Deducted charitable donations
- Included the capital gain

Most candidates made a decent attempt at group relief, usually identifying the correct loss of £250,000, but quite often this was deducted before the charitable donations. Also, about 5% of candidates factored in a 75% adjustment for the shareholding that the surrendering company held in Banks Ltd. There was sometimes a confusion of the order on the tax computation, particularly with regard to group relief and the charitable donations, but marks were split to give appropriate credit.

It was also quite common for the overseas rent to be grossed up, despite the wording in the question, displaying a little confusion from candidates over the description of withholding tax. In addition

double tax relief (DTR) was often deducted above the tax payable line, essentially against total profits. Partial credit was still available for calculating DTR.

With regard to the treatment of interest payable, the question made clear that all adjustments other than that for capital allowances had been made in arriving at the £337,900 figure. However, many candidates included unnecessary adjustment for what they believed to be amounts of trading interest. The mark plan catered for this, so some marks were lost due to this misinterpretation, whilst crediting the correct treatment of the non-trading loan relationship debits.

Aside from that, there was still technical confusion as to which items of interest were trade and non-trade related.

A handful of candidates took the adjustment to extremes and adjusted the £337,900 figure for everything in the question.

Finally on this part, the positioning of the capital loss within the computation sometimes resulted in a loss of marks as it was then offset against not only gains but other income.

## Part 2

Marks were lost for not including the dividends in arriving at augmented profits and dividing the limit by four not five.

Significant number of candidates picked up the wrong figure for taxable total profits as a starting point to calculate augmented profits i.e. sometimes before QCDs and/or group relief.

## Question 2

### Part 1.

Most candidates who attempted the Income Tax part (closing year rules) scored one out of two marks available. Points were dropped for including the cessation expenses and failing to identify the last tax year.

Only a few candidates calculated the incorporation relief correctly, but half marks were often given for a partially correct application of the formula for the relief and some follow through marks. Some time was wasted describing the incorporation relief conditions in detail, rather than focusing on the calculations and base cost of the shares.

### Part 2

This topic has been examined many times and there were many easy marks for stating the treatment and listing the conditions.

However, some candidates incorrectly described the transfer as exempt. Marks were also available for candidates describing the standard rated nature of the transfer, if TOGC did not apply.

Some candidates drifted into talking about the transfer of VAT numbers and registration, with only limited success.

## Question 3

This involved an email to a client addressing five issues related to a company raising and then distributing funds via a share or asset sale and also paying a bonus. The allocation of marks was broken down after the global "Prepare an email..." requirement.

One mark was available for the presentation of an email. Some candidates produced a letter, which did not score that mark.

#### Part 1

Most candidates correctly identified:

- Proceeds less cost on the sale of the shares
- The availability of the substantial share exemption (SSE) and the resulting exemption of the gain
- The need for SSE conditions to be met, including the trading company requirement

The distinguishing factor for candidates was essentially the identification of the degrouping charge (a loss) and the tax treatment of that and the share sale as a result of the SSE.

#### Part 2

The sale followed a nil gain/ nil loss transfer. Candidates who conflated the indexation to 15% were given partial credit.

The difficulty in this part was candidates thinking that a degrouping charge arose on the sale of the assets, which is incorrect. However, they then went on to calculate a degrouping charge that would should have been in part one. Mentioning degrouping scored a ½ mark.

#### Part 3

Most candidates correctly identified that the distribution of funds should be made by way of a dividend and garnered marks for the dividend allowance and the applicable Income Tax rates.

A handful of candidates suggested a loan (to a participator, the shareholders not being employees) which was given credit where appropriate.

#### Part 4

The vast majority of candidates did not understand the nature of the heads of agreement. There were answers that essentially described a sale and purchase agreement, the contents of a disclosure letter and/or warranties and indemnities.

The strongest candidates understood the nature of this agreement and some of the key issues and also the difference between the legal aspects of certain steps in a transaction.

#### Part 5

The majority of candidates understood that this part was testing the nine month rule with regard to delayed payment of a bonus.

However, here was some confusion about when bonuses could be accrued as opposed to when the deduction was available for tax purposes. In addition this advice was within an email to a client, so precise and clear advice for each accounting period was important.

### Question 4

#### Part 1

The requirement was deliberately worded "Explain..." as the effective 10% patent box tax rate is a headline, but to explain how that actually works was the test. Not many answers were well organised

in that respect, but credit was given for the numerous correct calculations of the deduction to be factored into the Corporation Tax computation.

A fair proportion of candidates thought that the patent royalties would be received net of Income Tax. In addition some candidates split out the patent royalties from the taxable trading profits, for which there was no penalty.

#### Part 2

This was well answered by the majority of candidates. As the goodwill was acquired very recently, a degree of discretion was applied with regard to the dates of the rule changes.

#### Part 3

Again, this was well answered by the majority. Stronger candidates produced a more focused answer rather than reproducing every penalty possibility. Another feature of strong answers was the inclusion of an instruction to pay the tax and mentioning interest.

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

#### **Part I – Short form questions**

##### **Question 1**

This question was very well answered with most candidates achieving full marks.

##### **Question 2**

Many candidates appeared not to have fully read the question and did not include the due date for payment of the Income Tax. Many also calculated Lily's total tax liability which was not required to obtain full marks.

##### **Question 3**

There was a varied standard of answers. However this was generally well answered.

##### **Question 4**

Most candidates answered this question very well.

##### **Question 5**

The first part of the question was well answered, but for the second part a significant number of candidates struggled to explain how a capital gain can arise if gift relief is claimed.

##### **Question 6**

This question was fairly well answered, although candidates should ensure they are careful in calculating the rate of taper relief to be applied as this is where many missed out on marks.

##### **Question 7**

Generally candidates prepared good answers to this question. Most marks that were missed related to forgetting to deduct the annual exemption or using the incorrect rate of CGT.

##### **Question 8**

This was very poorly answered with over half of the candidates failing to achieve any marks. There seemed to be some confusion with excepted estates for IHT purposes for many candidates.

### **Question 9**

The first part of the question was poorly answered but most candidates were able to identify the correct treatment of expenses for the second part.

### **Question 10**

A fairly well answered question, although few candidates achieved full marks.

### **Question 11**

In general this question was well answered.

### **Question 12**

Most candidates made one or two basic points but were unable to provide full, detailed answers.

## **Part II – Long form questions**

### **Question 1**

The first parts of this question were answered very well in the main. Most candidates were able to attain the majority of marks available, although only a few candidates applied the calculation for the element of the IHT payable by the Personal Representatives. In general, the law questions were poorly answered with very few candidates able to demonstrate understanding of whether a remainderman can receive capital.

### **Question 2**

The computational elements of the questions were answered well. Again, the law and ethics parts were poorly answered. Only a few candidates could demonstrate understanding of when a trust deed can be amended and whether it is possible to act for a client with no letter of engagement.

### **Question 3**

Candidates missed out on easy marks for not structuring their answer in letter format. The majority of candidates were able to attain good marks for identifying the key points for the Residence Nil Rate Band and Inheritance Tax reduced rate for charitable legacies. On the whole, this question was answered very well and showed sound knowledge and understanding.

## **ATT Paper 6 VAT**

### **Part I – Short form questions**

There were no specific questions that caused a problem in their own right. In most cases the loss of marks resulted in lack of explanation rather than “getting it wrong”. This was a well attempted paper.

### **Question 1**

This question was relatively well answered, with a few students confusing exemption with zero rating.

### **Question 2**

There were mixed responses, with many missing out the train fares due to the underlying zero rating and many used the wrong VAT fraction, i.e. assuming £3,000 to be gross. A reminder to candidates to read the detail of the question!



### **Question 3**

Candidates did reasonably well, but marks were lost for not fully explaining why the VAT would or would not be recoverable! The overseas client entertaining point was well picked up.

### **Question 4**

Generally candidates performed well on this question. Where this was not the case it was due to a complete lack of understanding of the capital goods scheme. Many candidates did not state which VAT return the adjustment should go into. Candidates should answer all parts of each requirement.

### **Question 5**

There were a variety of responses to this question. Most picked up on the floor basis being beneficial but failed to fully discuss part 2 requirements.

### **Question 6**

Candidates should be careful with terminology. Many candidates noted that the sale was both exempt and zero rated. Otherwise principles were understood and well-presented most of the time.

### **Question 7**

As expected candidates performed very well on this question.

### **Question 8**

Many candidates were confused about the availability of zero rating with many missing the point about the village hall. More disappointingly there was limited discussion of the certification and it being the supplier responsibility. Property questions however are generally trickier!

### **Question 9**

Many candidates stated the rules without direct application to the scenario. However it was clear this is an area that candidates do know quite well, or know where to find the rates.

### **Question 10**

It was pleasing to find that candidates are managing well on tax point rules. Customer B was correct in almost all cases. Customer A caused more confusion. Candidates lost marks where they got dates right and knew which VAT return they fell into but failed to make reference to BASIC or ACTUAL when discussing the tax points.

### **Question 11**

Disappointingly many candidates referred to reverse charge being applicable, or thought they could use a UK VAT return to recover foreign VAT. Where however those student knew it was the EU refund scheme, good marks were obtained.

### **Part II – Long form questions**

Overall, although candidates appeared to be well prepared for the technical parts of this paper, efforts to address the questions on Practice and Professional Guidelines and Ethics were generally poor. For some candidates, the failure to collect many if any of the 10 marks available for this will be the difference between a pass and a fail.

### **Question 1**

Most candidates attempted this question. Although, most were able to identify the consequences of opting to tax the barn, few were able to apply those practically to the situation of the question. Candidates should always read and assess carefully the evidence available in the question and address their answer to that, rather than responding in purely theoretical terms. Other parts of the question were generally well addressed and most picked up two easy marks for the accounting part.

### **Question 2**

Most candidates were able harvest easy marks from stating the conditions of a transfer of a going concern (TOGC). Fewer were able to identify that a share sale was not a TOGC and the anticipated closure of the factory caused problems. It was a test of how long the business had to be operated in the same state before TOGC could not apply. With only a few exceptions, those who did attempt an answer appeared to assume that the factory would be closed immediately on acquisition and thus took themselves to the wrong test.

The part relating to negligence was both very straight forward and in principle an easy four marks. Nearly half of the candidates either offered no answer or an answer which was not worth any points, giving the impression that this important part of the syllabus is being neglected in revision plans.

### **Question 3**

The first half of this question was again an easy opportunity to quickly score easy marks and many availed themselves of the mark feast available. It is important for candidates to address themselves specifically to the question in hand, which asked specifically about the returns, full details of which had been provided. Some candidates wasted a large amount of time describing in general terms of the default surcharge regime. Some did this without then considering the specifics of the question. Candidates should always assess the evidence and address the question.

The second part of this question concerned Practice Guidelines. Of the six marks available, the average score over the papers was less than one mark. If candidates expect to succeed both in examinations and in practice, then they should ensure they have a much better grasp of this part of the syllabus.

### **Question 4**

Candidates were relatively good at identifying which items should be excluded from the calculation of taxable turnover, though there was some confusion over whether items were exempt or outside the scope. The sale of the capital item caused most problems with a significant proportion of candidates seeking to include it in the calculation.

Determination of the registration date was usually good and some credit was given to candidates who had miscalculated as a consequence of including the capital item.

Calculation of the outstanding liability (it would be  $1/6^{\text{th}}$  not 20%) and the question of possible recharges caused a problem for a number of candidates.

Most were able to state the rules on recovery of pre-registration input tax, but again failed to apply the evidence in the question – the legal fees were clearly incurred more than six months earlier.