

# The Association of Taxation Technicians

## Examiners' Reports

May 2018

### ATT Paper 1 Personal Taxation

#### Part I

##### **Question 1**

Many candidates presented perfect answers and achieved full marks in calculating the income tax liability. However, some candidates forgot the personal allowance and/or the savings starting rate and nil rate band, and/or the dividends nil rate band.

Disconcertingly, a large proportion of candidates seem to believe (erroneously) that providing a list of numbers with no narrative whatsoever is sufficient to obtain full marks in computational questions. Future cohorts would be well advised to understand that we expect them to present their work professionally, as if it were prepared for a client of their firm.

##### **Question 2**

On the whole candidates showed a good understanding of how income from a REIT is taxed.

For those that struggled, the common errors were to confuse the treatment with that of a trust fund or to think that the dividends were treated as normal dividend income. A significant number of candidates grossed up the dividends using the rate of 7.5% or 55%.

##### **Question 3**

Disappointingly not many knew enough about Junior ISAs to score full marks.

Many quoted the rules for cash ISAs, with a 16 year age limit, or stated that contributions could only be made between the ages of 16 and 18. Some believed that the money could not be withdrawn until the age of 21, or 55, or state retirement age. Despite the maximum amount that can be invested in a Junior ISA appearing in the tax tables, many got this part wrong.

##### **Question 4**

Candidates' knowledge of the rules for non-wasting chattels was surprisingly mixed.

Many confused the chattels rules and restricted the sale proceeds to £6,000, or said the gain was exempt. Other candidates forgot the 5/3rds rule completely and just calculated a straightforward gain. A considerable number thought the chargeable gain was the 'higher of' (not 'lower of') and a large number of candidates calculated the gross sale proceeds incorrectly at £8,415 (£7,650 + £765).

Again, a significant number of candidates just provided a list of numbers with no narrative whatsoever expecting it to be sufficient to impress the examining team. Future cohorts are advised not take this approach.

##### **Question 5**

Some interesting lists of possible 'earnings from employment' for Class 1 NICs were presented.

A few gave perfect text book answers, but not many. A worrying number thought that cash earnings included P11D benefits, property income, trading income, and pensions. Those that correctly identified some cash earnings such as ITEPA mileage payments, shares, reimbursed expenses and childcare vouchers did not give sufficient detail to gain full marks.

#### **Question 6**

This question asked for a description of how relief under the unilateral DTR provisions is given. Disappointingly many candidates ignored the specific requirement and wrote about DTR treaty agreements in detail with no reference to the unilateral provisions. Others who tried to answer the specific question asked either scored extremely well or poorly because they lacked precision and enough detail in explaining how the relief is given.

#### **Question 7**

The vast majority of candidates scored full marks on this question, clearly demonstrating that they knew the rules for penalties levied on the late filing of a tax return.

#### **Question 8**

Some perfect answers were given for the calculation of the capital gains tax liability on the sale at undervalue of the cottage, but not as many as expected.

Many calculated a chargeable gain but did not go on to calculate the tax liability. For those that did, many forgot the annual exempt amount and/or charged the gain to tax at 20%, not 28%. A large proportion deferred the full gain rather than immediately charging the actual capital profit made on the sale at undervalue and deferring the rest of the gain.

Many ignored the requirement to explain why gift relief was available. Disappointingly, many of those that did try to explain stated that the reason was because the disposal was to a connected person.

Again, a significant number of candidates just provided a list of numbers with no narrative, in many cases requiring the reader to guess which figure the candidate meant to be the gift relief amount as opposed to the chargeable gain.

#### **Question 9**

This classic part disposal question was not as well answered as expected. Sadly there were not many perfect answers. Many confused the rules for a part disposal with the rules for the disposal of the remaining part of some land after a previous part disposal.

Common errors included incorrectly applying the  $A/A+B$  formula, not knowing how to treat the incidental acquisition and selling expenses, using the sale proceeds for the subsequent disposal (rather than the part disposal) in the  $A/A+B$  formula and/or using the net sale proceeds (not gross sale proceeds) in the formula.

Many went on to calculate the capital gains tax liability (for no marks) when only the chargeable gain was required.

Again, a significant number of candidates just provided a list of numbers with no narrative.

#### **Question 10**

Answers to this classic employment benefit calculation for the use of an asset followed by the gift of the asset were disappointing.

Many candidates demonstrated that they had no idea what to do with the gift, although most attempted to calculate a benefit for the use of the asset. A significant number forgot to time apportion the use of asset in the first and last tax year, or calculated the wrong number of months.

A significant number believed that the gift benefit was the 'lower of' (not 'higher of') the two calculations and in calculating the total benefits for 2017/18, many forgot to add on the benefit for the use of the asset for seven months in 2017/18.

Again, a significant number of candidates just provided a list of numbers with no narrative.

### **Question 11**

This was a more challenging question on cashing in a non-qualifying single premium life insurance bond. It was answered very well by a few candidates who obtained full marks, but the majority were a little confused and some did not attempt the question at all.

Some thought that the income was treated as a capital gain, or as non-savings income. Accordingly, many did not give the savings nil rate band. A considerable number forgot to deduct the notional tax credit at the end.

Only the tax on the life insurance gain was required, but many candidates unnecessarily produced a full blown income tax computation. A more efficient approach would be to use the marginal rates of tax (knowing the individual is a higher rate taxpayer).

Again, a significant number of candidates just provided a list of numbers with no narrative.

### **Question 12**

Knowledge of the DOTAS rules was generally sparse.

Some answers covered two pages full of vaguely related (but imprecise) statements about tax avoidance and/or tax evasion schemes in general. Others presented a meagre few lines demonstrating a lack of knowledge on the area. Quite a few candidates did not attempt the question at all.

## Part II

### Q1

Q1 – a lot of candidates scored well on part 1) of this question, getting a lot of follow through marks for the income tax calculation, often where they missed one of the expenses being allowable for Harbour View. However, the most common areas where candidates lost marks were the expenses for Harbour View. Candidates often allocated the expenses correctly, but then lost marks for not explaining sufficiently why they had treated each expense accordingly. Candidates often gave vague explanations such as "the expense is allowable", without actually explaining why that was the case.

It was disappointing to see that some candidates struggled with how to cope with the gift aid donation, either deducting it from the total income or not grossing it up for basic rate tax when extending the basic rate band.

Candidates are reminded to read the question carefully, as some got the total number of months incorrect for Harbour View or simply did a full year's worth of rental income, rather than 8 months' worth. Quite a number also did not give the due date for the payment of the income tax, even though the question clearly stated this was a requirement.

It was disappointing that a fair few candidates had no idea about the change to mortgage interest and simply deducted the full £6,000 from the rental income for The Gables. Others correctly calculated the amount eligible for the basic rate tax relief, but then incorrectly deducted it from the total income instead. A few candidates also talked about the wear & tear allowance being available to Seresh.

Part 2) was not particularly well dealt with in many cases, with it being quite obvious where candidates were having to guess as they clearly did not know the answer.

Part 3) was answered very poorly, with candidates just writing about filing tax returns generally, not answering the question that was specifically about filing them electronically.

## Q2

Reasonably well answered.

Most candidates recognised that a 30% shareholding was an important barrier for participation in an EMI scheme but many did not recognise that Alistair's and James's holdings needed to be aggregated for this purpose. A surprising number recognised the association between Alistair and James when considering the latter's, but not the former's, entitlement to participate.

A surprisingly large number of candidates didn't think James was an employee despite the question stating that he was.

The required calculations in part (2) were better than expected. Almost all knew that there was no tax charge on grant. The other calculations were done with varying degrees of accuracy/clarity.

As regards the ability to benefit from Entrepreneurs' Relief, few went far beyond mentioning the need for employment, trading and for one or other to have been extant for a year.

## Q3

Answers were generally OK but a bit "shallow" on the more complicated aspects.

Some candidates spent too much time writing about the basis on which she would incur tax if taxed on the arising basis – the question was very much focussed on the basis on which she would be taxed if electing for the remittance basis.

Only a minority picked up on the possibility of Overseas Workday Relief.

The vast majority knew the details for the Remittance Basis Charge and that a claim for the Remittance Basis would result on the loss of Personal allowance and Annual Exemption; many fewer referred to the loss of the Dividend Allowance.

Answers needed to refer specifically to the income and gains referred to in the question rather than being a general exposition of the remittance basis.

A tiny minority referred to the requirement to nominate overseas income/gains but even fewer realised that Ada's son was not a relevant person. Many picked up the odd mark in part (2) for realising that the painting would somehow represent the dividend income but few managed more than that. Again, the question was misread in a substantial number of cases with candidates thinking that it was the offshore capital gains, rather than the dividend income, that were to be used to buy the painting.

Also, there was a tendency to write about the imagined gift of the painting from Ada to her son and the CGT implications of this.

Again, a surprising number of candidates seem happy to forego the 7% of the marks available for this question by not including an email header and sign-off.

#### Q4

The numbers elements of the answer were dealt with reasonably well, the explanation less so.

To the extent that an opinion was offered, most candidates thought the Phonic Ltd investment allowed gains to be deferred rather than exempted.

Perhaps half of candidates restricted the Opta Ltd loss for the Income Tax relief originally received.

The majority of those that attempted part (2) recognised the ability to relieve the losses against income but not that this relief could be against current or preceding year. Most went on to point out the benefit of relieving at 40% rather than 20%.

#### Overall:

As the examiner, I am reviewing the scripts by reference to the marking scheme and am looking to give credit wherever a candidate has demonstrated an understanding of the relevant point or has done an accurate calculation or has used a number correctly. Please bear in mind a very important point – I cannot give marks if I cannot read your writing or decipher your numbers and I only have a limited amount of time to do that. I know it's painfully obvious but it is an issue at every sitting. It is often better to write less that is legible than more that is illegible.

Also, it is striking how some candidates score very heavily by writing very little. They do this by really thinking about what the question is asking; just answering that question and planning their answers. Especially in relation to written answers, the marks in the marking scheme are given for making the relevant point, not for the verbiage that is included between those points. This is not necessarily to encourage bullet point answers to questions asking for written responses but it is to encourage precision wherever possible.

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

#### Part I

##### Q1

Many candidates gained full marks on this question. However, a few made errors with the most common being calculating the amount assessable for 2017/18 on actual profits arising in that year (i.e.  $1/11 \times £22,000$  plus  $11/12 \times £36,000$ ).

##### Q2

This question was avoided by several candidates although the majority of those that did answer stated the correct time limit for the appeal and the option to take an unsuccessful appeal before the tribunal. However, very few mentioned the circumstances in which an appeal can be taken further after the tribunal decision.

##### Q3

The majority of candidates gained full marks on this question. Of the few errors which did arise, the most common were the failure to restrict the loss relief and the failure to apportion the profits to two financial years for the calculation of Corporation Tax payable.

Q4

This was another question where many gained full marks. The few errors which did occur were generally for stating incorrect time limits (e.g. six/twelve months after filing date rather than three/six months).

Q5

The problem area for this question was mainly in connection with the calculation of the indexation allowance and also, in cases where that calculation was correct, occasionally there was a failure to restrict the amount of the allowance and therefore a capital loss was shown.

Q6

The main error in the answers for this question was the failure to show two accounting periods ending in 2018, with many candidates showing the third period as the full twelve months.

Q7

Although there were a few candidates who answered this question correctly, many gave a list of taxable supplies rather than types of supply for VAT purposes, but as they included standard and exempt (and zero and reduced rated) the majority of candidates gained at least two out of the three available marks.

Q8

The VAT due on the discounted goods was generally calculated correctly but few candidates were able to calculate the adjustment due to the gift of the laptop bags. There were also many that deducted the amount of VAT they had calculated on the bags as input tax.

Q9

The majority of candidates described the entitlement to Employment Allowance correctly for both Tim and Tom but many failed to explain how the allowance is given with several stating that it is claimed in the self assessment tax return.

Q10

This was another well answered question with many gaining full marks, although there were a few candidates who did not calculate the loss on disposal correctly and a few who failed to show 'T' accounts.

Q11

Few candidates had problems answering this question so the majority gained full marks.

Q12

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

Q13

The majority of candidates showed the correct answer. The main areas of error were using a LIFO basis for calculating stock or calculating the average of the purchase cost to use as the stock value.

## Part II

Q1

This question was in the main well answered.

The rates prepayment was generally correctly calculated, although candidates sometimes got confused and calculated the prepayment at £26,000, rather than £13,000. Occasionally the prepayment was added on rather than deducted.

The accountancy accrual seemed slightly more confusing as candidates increased the charge currently included to £7,000 rather than include an additional £7,000. The accrual for loan interest seemed to cause problems with a provision either not being included, or adjusted through the bank loan or bank account.

Most candidates correctly calculated the depreciation charge, using the depreciable amount for land and buildings and the net book value for plant and machinery.

The final dividend did seem to cause confusion with a number of candidates including on the basis that it was paid within nine months, confusing the rules for tax deduction and accounting. There was some variation in where the dividend was disclosed. Marks were given for a deduction against the profit and loss account or an adjustment to the profit and loss reserve.

Most candidates coped well with the second bank account, at least including the amount taken out as a bank loan, if not the proceeds of the share issue, although there were adjustments for loan interest, as referred to above.

The main area of difficulty presented by the question was in the inclusion of the share issues. Where the actual calculation of the additional shares was incorrect (e.g. the calculation of 5 shares for 4 held), marks were still awarded where candidates could demonstrate the correct accounting treatment. Candidates struggled to account for the bonus shares, because no cash was received.

As in past papers, understanding of ethical guidance was lacking for a number of candidates, although a common sense approach would be enough to generate at least one mark.

Similarly, candidates found the legal issues difficult, but this was felt to be due to lack of revision rather than difficulties in the question.

## Q2

Most candidates were aware that this was a question about rollover relief and were knowledgeable about the conditions to qualify for the relief.

The problem then seemed to be addressing the issue of the investment in the company. Whilst some candidates did comment that EIS would apply and knew the basic conditions for relief, many did not make the connection: looking to apply the conditions for rollover relief to the company investment. Some candidates referred to gift relief which was not relevant given the information provided in the question which clearly states that the warehouse was sold and therefore there was no option to gift the asset to the company.

There were also candidates who discussed entrepreneurs' relief and the conditions applicable, although the question clearly states that the letter should relate to options for deferral.

## Q3

In general, this question was well answered with most candidates correctly adjusting for depreciation, private proportions of heat and light and motor expenses. Candidates were less sure about the correct adjustment for goods taken by the proprietor and added back either the cost or the profit element.

Candidates should ensure that, if any cost is not added back or otherwise adjusted, the reason is stated as the examiner cannot be sure whether the adjustment has been forgotten or the candidate does not know what to do.

The legal costs for the field purchase and for the grant claim presented little problem, but the costs for defending the right to use the road were often added back.

The majority of candidates correctly deducted the profit on the sale of the tractor, but then did not follow through to make any adjustment to the capital allowance computation. Other aspects of the capital allowance computation were generally correct.

The partnership appropriation procedure was well known, with only a few students putting salary and interest as a deduction from profit within administrative expenses.

The parts of the question relating to farmer's averaging and the herd basis were generally well answered. Some candidates gave the deadlines for application of the herd basis rather than the operation of the relief.

#### Q4

The rules for capital allowances on electric cars, high emission cars, and operating leases were well known. As were the provisions that claims should only be claimed when there is a contract.

Less well known were the rules where the contract provides for payment after four months in respect of the punch press and the provisions stating that assets acquired under a hire purchase contract can only be claimed when the asset is brought into use.

The laser cutter did seem to cause problems: candidates quite often identified that the asset was a long life asset, but then applied the rules for short life assets: de-pooling and claiming allowances at 18%.

The washroom and storage container did cause problems with candidates not allowing any claim for the washroom and, even if the integral feature was identified, claiming allowances at 18% instead of 8%.

Some of the answers regarding the printer correctly identified that this was a short life asset, but weren't always clear what this meant: claiming that the asset is written off after five years.

A number of candidates also seem to think that allowances should be time apportioned for the period that the asset is owned by the business in the period.

### **ATT Paper 3 Business Compliance**

#### Part I

##### Q1

Many candidates scored full marks on this question. Some candidates spent a significant amount of time working out the NIC on a monthly basis.

##### Q2

Many candidates scored full marks on this question. The most common error on this question was failing to apportion the benefits.



Q3

Most candidates struggled with this calculation. Many did not apportion the levy allowance to the month, or incorrectly applied the 0.5% apprenticeship levy. Most candidates did recognise that the Class 1A NIC should be excluded from the calculation.

Q4

The majority of candidates answered this question well, with many scoring full marks.

Q5

Few candidates scored full marks on this question. Many identified only one correct answer out of the three sub-questions.

Q6

The majority of candidates dealt well with this question and in general calculated the SSP due. The question required an explanation, and a number of candidates did not adequately explain their workings. Candidates should take care to ensure they fulfil the question requirement in these cases.

Q7

Many candidates scored full marks on this question. A number of candidates omitted to mention that there was no impact on the secondary NIC or primary NIC above the upper earnings limit, and so missed marks.

Q8

This question produced a mixed response, with some candidates scoring few marks and others scoring full marks. A number of candidates did not prepare a T-account as required by the question. Accounting questions do often seem to cause difficulty for a similar proportion of candidates each year.

Q9

Most candidates scored at least half marks on this question by correctly identifying the time thresholds for the tax advantage to apply. Candidates lost marks by becoming confused with the rules of other tax-advantaged schemes, discussing discounts, or failing to identify how tax would apply to any taxable amounts.

Q10

Many candidates scored full marks on this question. A small number of candidates incorrectly calculated that no personal allowance was due or did not correctly deduct the benefits from the allowance, instead stating that the benefits would be taxed via P11D.

Q11

This question split candidates, with some scoring full or nearly full marks, and others becoming very confused about which returns and payments were late or incorrectly calculating the penalties due. Some well prepared candidates did pick up on the point regarding the £400 penalty collection de minimis.

Q12

Many candidates scored full or nearly full marks on this question.

### Q13

Candidates found this the most difficult question on the paper, with many scoring little or no credit. Many candidates identified the three year cut off period for relief and that duties were split between the UK and overseas. Overseas employment taxes questions do often cause difficulty for candidates.

### Part II

#### Question 1

##### Part 1

Surprisingly, there were some very poor attempts at this part. Candidates did not appear to be comfortable with the basic principle of partial exemption and calculations in relation to the recoverable amount percentage contained lots of errors. Often the format of taxable supplies divided by exempt supplies was seen which then led to some very odd calculations down the line. The majority also included the VAT on the car as a recoverable element.

For the candidates who understood the principle that the recoverable amount is calculated by taking taxable supplies divided by total supplies, full marks were very often achieved. Some good knowledge of the de minimis tests and the fact that this was not a de minimis trader were shown.

##### Part 2

This caused no problems and some very good detailed answers were given. A significant number of candidates thought that once the value of taxable supplies fell below the threshold then compulsory deregistration would occur. This displayed some confusion in how the rules are applied in practice.

##### Part 3

Again, this caused no problems with the majority of candidates securing full marks. It is still the case that TOGC is referred to as being “exempt” by a proportion of candidates instead of using the correct terminology of “outside the scope”. Candidates who did not gain full marks on this section failed to explain all / most of the conditions in detail.

##### Part 4

Generally, this was not done well. Candidates interpreted the question to be about the operation and conditions for the flat rate scheme – clearly having prepared for the exam based on the structure of past questions. This led to no marks being awarded. Only a small number understood the new rules on limited cost traders which was very surprising as new areas tend to those where candidates focus their attention. For those that did approach the question correctly, very often full marks were awarded for stating the rules and recognising that Moira’s business was a limited cost trader as her spend on relevant goods was less than 2% of turnover.

#### Question 2

##### Part 1

A significant number of candidates approached this question as being about the common penalty regime and therefore wrote at great length about the behaviours in determining the level of penalty. This displayed a lack of knowledge and understanding on the PAYE default regime. For those candidates who adopted the correct approach, sound knowledge was displayed about how the regime operated. However, there was a lack of “application”. Candidates were comfortable in explaining the impact of 1<sup>st</sup>, 2<sup>nd</sup> defaults etc. but then could not relate the rules back to the question to advise how this affected the business in the scenario.

The part on the penalties applicable in relation to FPS was done better.

#### Part 2

There was some confusion between payroll giving and gift aid. A lot of candidates wrote at length about extension of basic rate bands in the income tax computation; failing to recognise that payroll giving operates under the net pay arrangements.

#### Part 3

A significant number of candidates treated the initial fee to join the Institute as being non taxable. Also there was some confusion on whether the provision of accommodation was taxable or not and there were irrelevant discussions on the conditions for job related accommodation.

There were also candidates who scored full marks and showed very good knowledge of the BIK regime.

#### Part 4

This part was done really well, with candidates displaying good understanding of the trivial benefits and staff entertaining rules. Calculations of the tax and NIC due were also very accurate with a significant number correctly grossing up the value of the benefits.

### Question 3

#### Part 1

Full marks were often awarded on this part. This is a topic which candidates have become familiar with.

#### Part 2

This area caused no problems. As long as sensible suggestions were made, marks were awarded. There were some poor answers produced by candidates who had not prepared fully for this section.

#### Part 3

A common error in this part was to treat the statutory redundancy payment as being fully taxable. Only the better prepared candidates showed the understanding that the payment uses up part of the £30,000 exemption. A significant majority also treated the legal fees as being fully taxable. Calculations often took the form that every element of the package was treated as taxable with just the £30,000 deducted at the end. This conveyed a lack of knowledge between the different types of termination payment.

#### Part 4

It seemed like candidates had failed to read the question properly for this part. The requirement clearly stated termination "without breach". However, answers contained references to gross misconduct, harassment, lack of qualification and reasons for fair / unfair dismissal. The candidates who had understood the question properly and were familiar with the law material did often score full marks.

### Question 4

#### Part 1

A common error in this part was for candidates to explain the implications of late filing of CIS returns and discuss at length the rationale for having a construction industry scheme in the first place. For those candidates who did achieve full marks, their answers were very focussed and discussed the relevant dates and contents of the CIS return.

## Part 2

Answers were very mixed to this part of the question. Candidates either scored full marks by showing an in depth understanding of deductions and how the CIS regime operates with accurate calculations; or produced very confused answers with deductions of 30% from labour and a failure to deduct the profit element on materials. Candidates did not seem to know how to treat VAT and quite often just left it out of their answers completely. Candidates do seem to struggle with this area.

## Part 3

Full marks were often awarded here. Candidates are now very comfortable with the rules on VAT registration.

## Part 4

Again, no problems on this part with even poorer candidates often scoring the maximum marks available for the question.

## **ATT Paper 4 Corporate Taxation**

### Part I

#### General

The vast majority of candidates found plenty of marks to go at and did well. There were very few examples of misinterpretation of the questions.

#### Specific

Q1 – Errors mainly were in allocating FYA to Solar panels and then all of the AIA to the General pool, or allocating the solar panels to the general pool.

Q2 – Straight forward, most candidates knew enough to do well, although a few included references to VAT registration thresholds.

Q3 – Answered very well most candidates scored maximum points. No obvious gaps in the teaching.

Q4 – Surprisingly a lot of candidates stumbled on this one – easy errors such as adding back profit on the sale of FA; not realising that the directors' bonus was payable after nine months. For the gifts the candidates did have to note that the rules state not more than £50 and including a logo – the question was clear in its requirement.

Q5 – There were a lot of possible points to get the 4 marks. I would have liked to have seen more references to elections or no elections. Gift relief was the more difficult concept of the two for the candidates and a lot seemed confused over the reduction in base cost of shares vs base cost of assets; and often the effect on base cost wasn't mentioned at all.

Q6 – Very few candidates got the point that the LLP would adjust under normal rules to get to its taxable profits – they just said that **profits** would be shared amongst the members. The disguised salary was only 1 mark so again a lot to go at – however a lot of candidates mentioned the conditions B&C whereas the question was aimed at Condition A.

Q7 – A half mark was given for including that the payment of the tax and NIC on the deemed salary would be due on 19 or 22 April (but only instead of the half mark for saying the salary was deemed paid on 5 April, not in addition to).

Q8 – Not answered well. Very few candidates realised that the payment of the director’s personal liabilities – the school fees - would be treated as income and therefore Class 1 primary and secondary. Medical insurance was largely dealt with correctly. In c) it didn’t matter that it was a party (no need to discuss why a party might be a benefit, as a lot of candidates did) – what mattered was the NIC on PSAs – i.e. class 1B.

Q9 – Mainly ok.

Q10 – The voting rights issue was the one most missed. Also, easy marks missed for not including the 5% rule.

Q11 – Well answered although ½ mark was dropped for rounding the IA. Most knew the SSE rules.

Q12 – Badly answered. A worrying amount of candidates confused the 14<sup>th</sup> day of month 7 with 7 months and 14 days after the beginning of the AP. Few mentioned the 3/n issue. Also very few commented that the reason why there might be interest payable was because these are estimated instalments – not late paid or unpaid instalments.

## Part II

### Overall

There were some good answers in the numerical parts of this question, including the Capital Gains Tax and Corporation Tax. Despite a few technical trips, there were good responses regarding loans and the purchase of own shares.

However, a number of themes emerged:

- Candidates choosing to ignore certain parts of the exam. This was mainly with respect to, but not limited to VAT, ethics and law (see below)
- We chose our verbs carefully, so a requirement asking for explain requires that, not just a list of unannotated numbers
- Reading the guidance that we put in to both questions and requirements (see below) which are there to help candidates

### Question 1

#### Part 1: Capital Gains Tax (CGT) and share pool

The majority of candidates recognised the share pool concept and credit was given, even if the numbers drifted. However, the majority of candidates made at least one error on indexation, mostly indexing prior to the bonus issue or rounding to three decimal places or not indexing to the point of sale. Some candidates used the half up rule for CGT valuation purposes with regard to the bonus issue (for which there is no cost) or another cost and also for the rights where the price was stated. Follow through marks were given in arriving at the gain.

#### Part 2: Overseas issues

The majority of candidates who attempted this part identified incorporation and central management and control. The consequences (i.e. only certain amounts taxed in the UK) were described less well although credit was given for valid permanent establishment points.

#### Part 3: Calculation including Double Tax Relief (DTR)

Most candidates scored marks here for DTR, although a minority of candidates included DTR in the Corporation Tax calculation before then taxing at 19% (and sometimes revisiting the DTR) so a little bit of confusion. Stronger candidates identified the treatment of the trading profit and dividend.

#### Part 4: VAT issues

Pre-registration VAT on goods and services was tested as well as general input tax recovery. Many candidates chose not to answer this part. The six month and four year pre-registration rules were rarely mentioned, although credit was given for basic VAT principles. However, many candidates produced an answer that was just a list of numbers and a total with no narrative, despite the requirement "explain". Candidates can make the choice to abandon VAT if they wish, but it will still form part of the exam. For those that did attempt this part, explain needs at least some words, even if only brief.

### Question 2

#### Part 1: Investment company definition

Most candidates scored a few half marks for the definition and a description of at least some of the issues with regard to expenses. The mention of capital allowances and capital expenses was only present in the scripts of stronger candidates.

#### Part 2: Corporation tax (CT) for the investment company

Although this involved an investment company, many of the normal CT principles applied. A sympathetic approach was taken when looking at the treatment of expenses by candidates and their allocation to a specific type of income or as management expenses.

#### Part 3: Excess management expenses

Credit was given in part 2 if excess management expenses were described there, although quite a lot of candidates described irrelevant losses in this small part.

### Question 3

#### Part 1: Email regarding loans to participators and repurchase of shares

The consequences of the loan from a close company were understood by the majority of candidates and it was good to see stronger candidates identifying the correct dividend rate (the question identified the taxpayer as higher rate) and also the dividend allowance.

The second part of this question was about purchase of own shares (POS). Many candidates adequately described the tax consequences of the two alternative treatments, albeit with a little confusion not least about the number of shares. A handful of candidates also considered the substantial shareholding exemption, which is clearly not relevant for individuals.

However, within the question candidates were informed that the client had looked up the POS conditions online and therefore did not need these to be repeated. In the initial scripts I was surprised to see, despite the guidance, these conditions being listed. This trend continued to the extent that I began to keep track of it, out of interest. In 229 scripts marked over 15% of candidates listed the conditions in whole or part. I make this point just to illustrate the time wasted. P4 is not traditionally time pressured and there are 15 minutes reading time.

Therefore, it seemed that many candidates plunged into this question with a pre-conception of what was required, except, in our attempt to be helpful, we did not required the content reproduced. This only wasted time for those candidates, but should be a learning point for all candidates to read what

is required in the requirement and also stated in the question. This was not the only example on this paper.

In the requirement it explicitly stated that NI was to be ignored. Some candidates mentioned NI, again, only wasting time. This was another example of the examiner trying to be helpful by excluding an issue, this time in the requirement.

#### Part 2: Ethical issues regarding fees

Many candidates chose to ignore this part completely or wrote generally about fundamental principles without application. For those who answered, the response quickly drifted into tax evasion and money laundering, and limited credit was given.

However, here were two clear scenarios of back dating invoices and padding bills which should have raised a response from the adviser. Very few of the candidates who answered the question advised against the actions, even fewer mentioned contacting the client. That indicates that re-examining these issues within context is important.

However, a few candidates mentioned threats including intimidation, which was given credit.

#### Question 4

##### Part 1: Instalment payments for CT

This did not score as well as anticipated as many candidates made quick conclusions without explaining the related company relationships. There was a lack of content and also a lack of appreciation of the test for related companies being performed at the end of the previous accounting period. The first day of the current period was accepted.

##### Part 2: CT loss relief

Most candidates described the current year and prior year offset for trading losses and the carry forward and identified the issue with regard to a 9/12 month restriction.

##### Part 3: Gains group issues

There was a degree of confusion about the 75% ownership requirement and how this linked to the effective >50% ownership and sometimes not all of the relationships and how they changed were addressed. However, many candidates scored some good basic marks. The pre-entry point was given a few times.

##### Part 4: Legal requirements for allotment of shares

Many candidates chose to not answer this question. There were a handful of good answers, and credit for ½ mark given for a sensible legal point involving the process, but overall there were very few answers addressing the legal issues.

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

##### Part I

Q1 The majority of candidates correctly gave BPR and a minority of those gave relief at 100% instead of 50%. Marks were lost for not giving a tax payment due date at all, or providing an incorrect date.

- Q2 Only a minority of candidates treated the watch as a wasting asset and therefore exempt from Capital Gains Tax. In general, candidates did not demonstrate a sound knowledge of the chattels rules.
- Q3 Most candidates obtained good marks and identified the key points in their answers. A high proportion of candidates also prepared lengthy numeric calculations, which were not required.
- Q4 Many candidates answered this question by treating Harvey as the settlor, which was not mentioned in the question. Overall most candidates attained a good mark. A minority of candidates had no knowledge of a Bare Trust.
- Q5 The majority of candidates attained full marks for the R185 entries. Many candidates incorrectly stated that the income should be taxed on Lucie's parents as she is a minor.
- Q6 In general this question was poorly answered with a number of candidates not attempting the question at all.
- Q7 Most candidates attained full marks on this question and could demonstrate a sound understanding of the BPR replacement rules.
- Q8 Many candidates attained good marks for the income tax calculation. However, marks were lost by not being able to calculate the maximum amount distributable without incurring an additional tax charge.
- Q9 This question was generally answered well. Many candidates gave additional details of spousal exemptions and deemed domicile rules which were irrelevant to a child under the age of 16.
- Q10 Most candidates attained good marks for this question and identified the key points. In general marks were only lost for not grossing up.
- Q11 The majority of candidates did not demonstrate knowledge of the tax consequences of not including statements in the deed of variation. Many candidates stated the tax consequences of a deed of variation with statements and therefore were not awarded marks. A minority of candidates attained full marks.
- Q12 This question was generally answered well with candidates demonstrating a good awareness of the rules.

## Part II

- Q1 The first parts of this question were very well answered on the whole. Most candidates were able to correctly calculate the available Nil Rate Band although some did not go on to apply it correctly to lifetime gifts. The death estate computations were strong in general, while the law aspect of the question was extremely poorly answered.
- Q2 The majority of candidates expressed their answer in letter format. This question was fairly well answered with candidates answering the law aspects particularly well. Candidates could have obtained more marks by clearly describing the basic aspects of the taxation of interim distributions, as some answers were very brief or did not address the question fully. The ethics part of the question was answered very poorly on the whole.



- Q3 This question was fairly well answered on the whole, as most candidates achieved good marks on the income tax and CGT computations. Quite a few candidates did not pick up on the fact that bank interest and dividends are subject to tax on a receipts basis in the estate, and failed to identify the disposal of shares leading to a reduced dividend in the second year. Again, the ethics part of the question was poorly answered on the whole.
- Q4 Quite a few candidates were unable to correctly identify whether spouse exemption and normal expenditure out of income could apply to a gift to a discretionary trust, with only a handful applying a correct and full analysis. The IHT calculations were good, with the calculation of the gross chargeable lifetime transfer and the withdrawn Business Property Relief being the parts where candidates commonly failed to pick up marks. A wide variety of knowledge was displayed in respect of the administration and law aspects of the questions, with some candidates displaying very good understanding, while others failed to attempt the law part whatsoever.

## **ATT Paper 6 VAT**

### Part I

Overall, candidates appeared to be well prepared for this paper with most scoring well.

Q1 - This presented few problems for most candidates though a small number seemed to be unaware of the default surcharge regime at all.

Q2 – The biggest issue here was identifying that the de-registration test consists of a forward rather than historic look at expected income. That meant that many calculated a de-registration date one year after it was initially possible. No candidate identified that the forward look calculation is not allowed where there is an expected total cessation of trade, though credit was given to candidates who advised that cessation would require immediate de-registration.

Q3 – The liability question was mostly handled well – bottled water shown as being zero rated was probably the most repeated error.

Q4 – Most candidates identified that VAT was due on the stolen takings, some bizarrely speculated that bad debt relief would be available later. Failure to identify that there was an adjustment required for netting off of the credit card fee was quite common.

Q5 – Most candidates appeared to have a good awareness of the working of the flat rate scheme and correctly identified that in this case it was not beneficial.

Q6 – Candidates easily arrived at the two obvious answers – the Italian company could not be grouped due to not having a UK presence and it was possible to group the others as a single group. Fewer candidates identified that there could be a group of the UK entities without the holding company (due to common control) or that the holding company and the company with only exempt supplies could not be registered as a group.

Q7 – A large number of candidates thought that adopting the vacuum cleaner for use in the shop would create a self-supply. It was no more complicated than an asset being used in the business with entitlement to full input tax recovery. Most identified that the other two supplies would create some kind of problem but there was a tendency to state open market value as being the correct valuation of the supplies. One was open market value and the other was based on cost. An examiner will rarely

ask the same point twice in one question, so candidates might have been suspicious if they were giving the same answer twice.

Q8 – Fuel scale charges appeared to cause problems for many. It is a reasonably common issue for businesses and a higher level of awareness was expected. This is a topic which perhaps now requires further examination in the future.

Q9 – Most scored easy points here. A handful thought that there was no VAT on imports and some did not appear to be aware of the C79 form stating instead reliance on documents which are more usually used to evidence exports.

Q10 – Charity advertising was a slightly tricky area, but those who appeared to consult their books of legislation scored well.

Q11 – Most handled well, though some failed to identify that the test of numbers of dwelling would be applied per floor.

Q12 – A disappointingly low number of candidates had any awareness of the Principal VAT Directive which is surprising considering its impact and importance for domestic legislation. Comments from one of the tutorial bodies indicates that perhaps it is not taught, but it is on the syllabus and candidates should be made aware of its existence.

## Part II

### **Q 1**

#### Part 1

This question was, in general, well answered and did not cause well prepared candidates significant problems. The most common cause of lost marks was poor exam technique causing candidates to forget to make points they no doubt felt were obvious.

#### Part 2

This was less well answered than the start. Many candidates calculated the April VAT return based upon April's figures alone – having failed to take account of the fact that they were specifically asked to include the annual adjustment on the return. Many of the candidates who calculated the April VAT return figures and then the annual adjustment (as opposed to doing a combined calculation as per the mark scheme) were unable to relate the two sums together, i.e. they were unable to state what figure would go into Box 4 of the April VAT return.

### **Q 2**

All parts of this question were well answered by well prepared candidates and did not cause significant problems.

### **Q 3**

All parts of this question were well answered by well prepared candidates and did not cause significant problems. The tutorial body's concern that the engagement letter question was not correctly drafted was unfounded, all candidates produced an answer in line with the mark scheme.

### **Q 4**

#### Part 1

Answers to this part were patchy. Many candidates explained the zero rating for granting a major interest in a new house (which was not relevant) and stated that the subcontractors were not

registered or that wages were outside the scope of VAT. Had they read the question more carefully they might have gained full marks.

### Part 2

Very few candidates stated that VAT recovery on fitted furniture or electrical appliances is subject to a specific input tax block. But most candidates realised that VAT incurred on Mr & Mrs Wain's home was not recoverable on the VAT return.

### Part 3

A recurring problem with questions on penalties is that candidates produce a stock answer which has not been related to the scenario. Even when told that an error has been discovered in a VAT inspection they still write about unprompted disclosure and even when told that a taxpayer has misunderstood the rules they write about deliberate understatement of VAT. Candidates cannot score highly in a question on penalties if they cannot demonstrate that they can apply their knowledge in practice.