Examiner's report

F6 Taxation (UK)
June 2011

General Comments

This was a very good performance and it was pleasing to see how well the first Paper F6 inheritance tax question was answered. One particular problem at this sitting was that candidates wasted quite a bit of time where something should have been obvious without having to produce detailed calculations, and also where more calculations were done than was necessary because the requirements were not read properly. This is where the reading time should be put to good use.

Specific Comments

Question One

*In **part (a)(i)** candidates had to calculate a taxpayer's tax adjusted trading profit. Then in **part (a) (ii)** they had to calculate the income tax payable by the taxpayer for the tax year 2010-11. The taxpayer had received director's remuneration (including two bonuses), dividends, interest on the maturity of a savings certificate issued by National Savings & Investments, and interest from government stocks (gilts). Her income was sufficiently high to lose any entitlement to the personal allowance. In **part (a) (iii)** candidates had to calculate the amount of income tax that would be due for payment by the taxpayer on 31 January 2012, and advise her of the consequences if this amount was not paid until 31 August 2012. **Part (b)** was concerned with introducing a new person into the taxpayer's business either as an employee or as a partner. On the assumption that the new person was taken on as an employee, in **part (b) (i)** candidates had to calculate the total amount of NIC that would be paid by the taxpayer and the new person. Then on the assumption that the new person was taken on as a partner, in **part (b) (ii)** candidates had to (1) calculate his trading income assessments for the tax years 2010-11 and 2011-12, and (2) calculate the total amount of NIC that would be paid by the taxpayer and the new person, if any, in respect of his trading income assessment for the tax year 2010-11.*

Parts (a) (i), (a) (ii) and (b)(i) were generally well answered, but candidates had more difficultly with the other sections. In **part (a)(i)** the only consistent problem was the revenue received in respect of a previously written off impairment loss. Most candidates did not appreciate that no adjustment was necessary. In **part (a)(ii)** it was often not appreciated that one of the bonuses was treated as being received in the previous tax year, and often bonuses were included or excluded without any explanation as to why. It should have been obvious that with income of over £250,000 no personal allowance was available, yet many candidates wasted time by showing a calculation for this. Many candidates simply ignored **part (a)(iii)**, and very few appreciated that both the balancing payment for 2010-11 and the first payment on account for 2011-12 were due on 31 January 2012. In **part (b)(i)** it was pleasing to see several candidates correctly restricted NIC contributions to the four months of employment. Although there were also many good answers to part (b)(ii), there were also a lot of candidates who wasted time by doing NIC calculations for both the taxpayer and the new person, or NIC calculations for both years, instead of just the one required.

Question Two

*In **part (a)** candidates had to calculate a company's corporation tax liability. This involved the computation of loan stock interest payable, capital allowances (based on items debited to a capital expenditure account), industrial buildings allowance, a property business profit, interest income and a chargeable gain. Then **part (b)** required candidates to calculate the final quarterly instalment payment that would have to be made by the company, and to state when this would be due.*

This question was generally well answered, and there were many very good answers. In **part (a)** there was no need to have separate computations for the trading profit and for taxable total profits, since it was quite straightforward to combine everything into one computation. The accruals for the interest payable and interest income often caused problems, and many candidates did not appreciate that no adjustment to the trading profit was necessary in respect of any of the items debited to the capital expenditure account. The writing down allowance for a motor car with private use was often restricted, despite such an adjustment only being relevant for an unincorporated business. The calculations for industrial buildings allowance, the property business profit and the chargeable gain were often made much more difficult than they actually were. Although most candidates correctly calculated the final quarterly instalment in **part (b)**, the due date was generally not known.

Question Three

This question was concerned with four shareholders of an unquoted trading company that was taken over. Under the terms of the takeover the shareholders either received a cash payment or shares in the acquirer company. In ***part (a)*** *candidates were required to state why three of the shareholders did not meet the qualifying conditions for entrepreneurs' relief. In* ***part (b)*** *candidates were required to calculate the capital gains tax liabilities of each of the four shareholders. The first shareholder took the cash alternative, qualified for entrepreneurs' relief, and had also made a chargeable gain from an investment property. The second shareholder took the share alternative and then subsequently made a gift of part of the new shareholding. The third shareholder took the cash alternative, had part of their basic rate tax band available, and had made a contribution into a personal pension scheme. The fourth shareholder took the share alternative, subsequently sold part of the new shareholding, with the remaining shares being bequeathed upon the shareholder's death.*

Answers to this question either tended to be very good or quite poor, with many candidates making the calculations far more complicated than they actually were. In **part (a)** many candidates simply reproduced the qualifying conditions for entrepreneurs' relief, without relating them to the information given for each of the three shareholders. In **part (b)** a number of candidates included taxable income as part of their calculations, and the annual exempt amount was often omitted. For the fourth shareholder, it should have been obvious that with sales proceeds of just £6,600 there would be no capital gains tax liability, yet the vast majority of candidates wasted time attempting to calculate a liability. Similarly, there was little awareness that the transfer on death was an exempt disposal.

Question Four

Part (a) *required candidates to explain from what date a business was required to be registered for VAT based on the historical test. In* ***part (b)*** *candidates were required to state the four additional pieces of information that the business would have to show on its sales invoices in order for them to be valid for VAT purposes.* ***Part (c)*** *required candidates to explain when and how the business should account for VAT in respect of the supply of services received from VAT registered businesses situated elsewhere within the European Union. In* ***part (d)*** *candidates had to advise the business as to the maximum amount of penalty that would likely be charged by HM Revenue and Customs in respect of the underpayment of VAT, and by how much this penalty would be reduced as a result of a subsequent unprompted disclosure. The underpayment arose as a result of incorrectly treating a standard rated supply as zero-rated. In* ***part (e)(i)*** *candidates had to advise the business as to how and when it would have to submit VAT returns and pay the related VAT if using the normal quarterly basis. Then in* ***part (e)(ii)*** *they had advise the business as to when it would have to pay VAT and submit its VAT return if using the annual accounting scheme.*

With the exception of part (b), this question was generally answered quite poorly. In **part (a)** most candidates did not appreciate that the zero-rated supplies had to be included when calculating taxable supplies for registration purposes. **Part (b)** was well answered, although many candidates wasted time by stating more than four additional pieces of information. For example, common sense should mean that the business could not possibly state the VAT registration number of the customer. Many candidates simply ignored **part (c)**, but marks were awarded for any sensible answer such as input VAT and output VAT would contra out. In **part (d)** too many candidates simply reproduced the penalty table without relating it to the facts given. Again, marks were awarded for any sensible conclusion. There was little of knowledge of the new online filing requirement for quarterly returns in **part (e)**, although the annual accounting scheme aspects were answered much better.

Question Five

*In **part (a)** candidates had to explain why it is important to differentiate between potentially exempt transfers and chargeable lifetime transfers for inheritance tax purposes. **Part (b)** required candidates to calculate the amount of inheritance tax that was payable as a result of the taxpayer's death. The taxpayer had made a potentially example transfer and chargeable lifetime transfer within seven years of death. Then in **part (c)** candidates had to state by when the personal representatives would have to pay the inheritance tax due in respect of the taxpayer's estate.*

This question was extremely well answered, with a high number of perfect answers. In **part (a)** a number of candidates wrote far too much for what should have been a short answer. In **part (b)** the only consistent problem was that the gross figure for the chargeable lifetime transfer was often taken as the tax plus the chargeable portion of the transfer, rather than the tax plus the total net transfer. In **part (c)** many candidates stated that tax had to be paid within six months of death rather than six months after the end of the month of death.