

Examiners Report

Exam Name and Code: Business Planning: Tax - BP:T A/2022

Date of exam – 22 July 2022

Paper performance overview

what worked well with candidates and areas that they were weak on, how they responded.

There was a wide range in the quality of answers. Many showed a good grasp of the technical issues and set out their answers clearly using short sentences and short paragraphs.

Sadly, many scripts were poorly set out with long rambling paragraphs that often made little sense. These scripts were frequently littered with typos which made them hard to understand. Minor typing and spelling errors are inevitable given the pressure of an exam but some candidates took this beyond acceptable levels. These candidates were generally also the weakest from a tax technical point of view. Their confusion about the tax rules appeared to spill over into the quality of English used.

Candidates need to read the question. If the question says “all companies are UK resident” do not write “assuming Garnish is resident in Bisland”. If the question says “a full year’s depreciation is charged in the year of acquisition” candidates should not assume it is time apportioned.

Question 1 performance (include each syllabus area covered)

The syllabus areas covered were: 1a, 1b, 1c, 1d, 1f, 1g, 1k, 1m, 1o, 1r, 1s, 2a, 2b, 2c

The question involved a group of companies in which one of the group members was loss making. Candidates had to identify tax adjustments required to the trading loss and then discuss how the loss could be utilised within the group. There was also a consortium involved in the group structure, though very few candidates recognised this. The question then asked about the consequences of buying a new loss making subsidiary and the tax treatment of the required finance.

Surprisingly few candidates thought to add back depreciation on the building even though the question said no tax adjustment had been made. Several stated that depreciation is not deductible so no adjustment was needed. Adding back depreciation charged in accounts is the most fundamental tax adjustment. It was disturbing that so many did not understand this.

A frighteningly large number of candidates thought that the full cost of a building was deductible against trading profit. It is not.

Students must ensure that they understand the difference between a degrouping charge and

the sale of an asset to a 3rd party following an intra group transfer. They are not the same thing. The latter was relevant in this question. A degrouping charge only occurs when a company leaves a 75% group after an intra group transfer.

Students should not refer to a VAT TOGC when there is a share purchase. That is only relevant when trade and assets are purchased. Many candidates were guilty of this.

Question 2 performance (include each syllabus area covered)

The syllabus areas covered were 1a, 1b, 1c, 1g, 1i, 1m, 1s, 1t, 1w, 2a, 3a

The taxpayer in this question received a gift from her grandmother who subsequently died. She also sold shares that had been acquired through three different share option schemes. The money was then used to buy into a partnership that was currently loss making.

Candidates had to assess the IHT implications of the gift, the IT and CGT implications of the share sales and then quantify and assess how best to use the partnership loss.

The IHT aspects of the question were done well by a large majority of candidates. However, contrary to the belief of many candidates, gifts to charity in a death estate do not reduce the rate of IHT applicable to PET's which have become chargeable on the donor's death.

In the share options section, there was no need to start the answer by describing what a share option is – the examiner already knows and the question only asked for the tax implications.

Several candidates mentioned that the shares would be subject to NIC if quoted on a stock exchange. As the company was clearly a private company (Squire Ltd) this is not a sensible comment.

Several candidates suggested that the SSE (substantial shareholdings exemption) could be claimed to exempt gains on share disposals. This was disturbing as

1. The SSE is not a claim
2. The SSE is not available to individuals – it is for companies only

The treatment of the partnership loss produced the most marked divide between strong and weak scripts. A minority of candidates produced excellent answers but a worrying number had no idea how to assess the opening years income or loss of a new partner.

Question 3 performance (include each syllabus area covered)

The syllabus areas covered were 1e, 2d, 2e, 3a

The question involved a taxpayer who had set up in business through a personal service company. The tax implications of the relationship with two major customers had to be discussed. This produced by far the strongest answers. Candidates were clearly well prepared for this area and many candidates scored maximum marks on this section.

The question then went on to ask about extracting profits from the company in the future and asked for comments about a “too good to be true” tax planning scheme. Candidates who followed an organised approach covering salary, dividends and loans and dealt with the

circumstances of different family members scored very well. Those with no structure or plan scored significantly fewer marks.

Candidates should ensure that the language in their answers remains professional. References to a “dodgy” scheme / friend do not sound professional.

Summary and helpful hints

Candidates should be aware that BP:T is primarily a written exam with a few calculations to back up the narrative points. Many candidates wasted huge amounts of time with extensive calculations that were not required to answer the questions.

It appeared that some students had been misled by the open book nature of this exam. Tax advice for clients involves applying tax rules to practical scenarios. If the rules are not properly known and understood candidates cannot apply them to the scenarios set out in the questions. There was much evidence of candidates copying out swathes of notes in areas that were simply not relevant to the question set.

Candidates need to assess whether what they are saying is rational and reasonable. The most extreme example was a suggestion that employing your son in your business was unethical and could potentially lead to a 14 year jail sentence. Surely, with a little reflection, the candidate must realise that this doesn't make sense.