

Examiners Report

Exam Name and Code: **Tax Compliance December 2023**

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

Overall, the paper went as expected. Candidates always do well on the Income Tax and Capital Taxes questions, and less well on the VAT and the Corporation Tax question.

It was heartening to see candidates getting to grips with the principles of CGT well, and, although the layouts were sometimes questionable, the understanding of IHT was also good, particularly as this is a new area for candidates (as in they haven't seen it at PoT).

The VAT question in particular is disappointing, as there are only ever a relatively few possible questions that can ever be asked. Although the Flat Rate scheme is not a common question area at TC, it is at PoT, and as a result should be assumed knowledge.

Losses continue to be a poorly understood area of the syllabus, again, this is disappointing, as losses are a fundamental piece of understanding. An area which is important for a tax accountant to be proficient in.

Finally, the higher skills element of the income tax question continues to be a difficult element for candidates to deal with. However, the ability to deal with complex information is an absolutely critical ability for progression to BP:T.

Question 1 performance (include each syllabus area covered)

Most candidates submitted a reasonable attempt at this question and clearly knew most of the ICAEW ethical guidelines.

Generally speaking, 1.1 was usually answered better than 1.2.

The weaknesses in some answers was that the response, especially in 1.2, was not related to the request from Chris – just some generic statements about the ethical code.

Quite a lot of candidates suggested ringing the ICAEW for assistance which, although often a good idea, isn't really answering the question.

Question 2 performance (include each syllabus area covered)

The submissions in 2.1 were disappointing. Language in VAT answers needs to be precise as changing one word can dramatically change the meaning of the statement.

With regards to the first question, a significant majority of candidates said that all imports were standard rated and commented that reverse charging would apply. The question clearly states that Driver is importing goods and so reverse charging isn't relevant.

Although it's very likely that the goods would be standard rated, the UK VAT applied would depend on what goods are being imported.

Lots of candidates indicated the idea that Driver wouldn't suffer VAT on the imports because of the postponed VAT system but didn't clearly explain how that works.

With regards to the second requirement, a number of candidates discussed the implications of being VAT registered which wasn't the purpose of the question. The discussion of the flat rate scheme was reasonable but, again, imprecise in a number of scripts. The main errors were applying 16.5% to the net sales figure and then not to calculate Lubbock's cash position.

The submissions for 2.2 were reasonable in the main. The only consistent error was to use the commercial SDLT bands rather than the residential bands.

Question 3 performance (include each syllabus area covered)

In 3.1 many candidates obtained full or almost full marks for the CGT computation with only the Gift Relief and chattel element causing issues for a few.

The discussion of NGNL was done less well. Lots of candidates could identify that George could transfer assets to Maria but didn't go on to make a clear suggestion as to what should be transferred and what benefit would accrue.

A common error was to suggest that the holiday home couldn't be transferred as it was bought before they were married.

A minority of answers explained and quantified the benefits of NGNL transfers excellently though.

In 3.2 lots of answers were presented very poorly which made it difficult to follow the logic of what was being attempted and also probably led to more errors. A lot of candidates missed QSR but other than that most errors were fairly small.

Question 4 performance (include each syllabus area covered)

4.1 was attempted well by the vast majority of candidates.

In 4.2 a reasonable number of candidates identified the SSE issue and explained it well. Quite a few discussed other, irrelevant, points like the group relationship.

4.3 was attempted poorly by most candidates. The requirement was very open ended and so candidates could have suggested many options.

Not many described the treatment of b/f losses in a company accurately and then were unable to explain or illustrate what could/should happen to the losses in the group environment. A more logical structure would have helped most candidates here (for example, explaining what could be done with each loss first and then identifying what they think should be done). Too many answers were a bit of a jumble of numbers.

4.4 was attempted well by most candidates who clearly know the SME R&D rules well.

Question 5 performance (include each syllabus area covered)

Answers to the remittance basis question in 5.1 were done reasonably well by most candidates.

Similarly the Income Tax calculation for Lemmy was done well by the vast majority. Only the overseas income & DTR caused any issues. Common errors included neglecting to gross the overseas income up by the WHT.

Similarly, the calculations in 5.2 were done well with lots of candidates achieving full, or almost full, marks. Most omitted to include the personal allowance however.

The answers to 5.3 were disappointing for something so straightforward.

The adjustments to profit were approached in a variety of ways and presented in quite a confused manner. Some started with the Gross Profit and some with the Net Profit and then got confused as to whether items should be added back or deducted. Credit was given if it was clear that the candidates knew the rules but had become confused with layout.

As with 4.3, the attempts at explaining Lyndsey's best use of her loss were quite confused in the main. To justify the 'best' use, candidates would be best advised to explain the options, then the aim of tax planning (timing v. rates) and finish by justifying the best option. As a new business this almost always ends up by recommending opening year loss relief by very few candidates either new these rules or suggested it.

The answers to 5.4 were very confused as well. This isn't surprising as this is a higher level question for Tax Compliance and so isn't something that many candidates might have looked at yet. Although the layouts were muddled, a number of candidates made a reasonable attempt at showing some tax implications of lease v. buy (for example, capital allowances, 15% restriction on rentals) but very few indicated the tax savings that would accrue from these payments.

Summary and helpful hints

The 3 big development areas continue to be layout, losses and VAT.

Layout – Often candidates use very confusing layouts, which can make the responses difficult to mark. Slowing down, and properly considering the question being asked, before trying to navigate the question using the most logical process is obviously the best option. The key element is to slow down. If candidates think about the question before attempting it, often the correct solution will present itself.

VAT – There are only a few question areas to draw from as far as VAT is concerned. Candidates would be well advised to focus on the main areas.

Losses – Losses continue to intrigue and infuriate. It is essential for candidates to follow the logic of loss questions. If a question asks the ‘best’ option, then describing the different options (albeit briefly) followed by a clear recommendation is the way forward. Candidates should also consider the specifics of the question before commenting. A loss in the early years of trade, will almost always point toward Early Year Relief, whereas a loss in the final year will generally be a terminal issue.