

Examiners Report

Business Planning: Taxation

Date of exam: 27 July 2021

Paper performance overview

There was a big range in the quality of scripts. Some were exceptional, showing excellent technical knowledge and concise communication. Weaker scripts struggled particularly with the brought forward knowledge from the Tax Compliance paper.

Weaker scripts also suffered from a lack of headings and structure. There were often inadequate explanations. A table of numbers with few supporting words is not a suitable answer to a question that asks for an explanation to a client.

Question 1 performance

This question covered the taxation of corporate entities, including changing group structures and planning to minimise tax liabilities. This was a typical large company question. It included

- expenditure on R&D
- income eligible for the patent box
- profit on the disposal of an intangible
- the purchase of a sole trade including goodwill which gave the possibility of the intangibles rollover relief
- purchase of a loss making subsidiary company

The R&D was generally done well. Few candidates realised that support staff don't get the extra R&D relief and many also missed the 100% FYA for capex.

The patent box was generally also well dealt with, although many candidates missed the fact that the Nexus fraction cannot exceed 1. An easy mark was lost, by neglecting to say that the company must elect into the patent box. Overall though, despite being one of the harder technical areas in the paper, the overall performance in this part was good.

Few candidates spotted that purchase of goodwill in the sole trade allowed intangibles rollover. Easy marks were also missed by not mentioning that Capital Allowances would be available on the plant bought as part of the sole trade. There was no tax relief for the cost of the goodwill as the sole trade had no Intellectual Property.

Many candidates concluded that the profit on the brand would be taxed as a chargeable gain despite the fact that work to create the brand on a new battery must surely all be post April 2002. This indicates a lack of commercial thought. Some candidates ignored this completely as they seemed unaware of the significance of April 2002 for intangibles.

Several candidates talked about Terminal Loss Relief for Randall's losses. This was not relevant as Randall was not closing down. Other discussion on the use of Randall's losses was polarised. Several candidates gave an excellent lucid summary of the impact of Randall joining Beloff's group. Many others were quite frankly incoherent.

Question 2 performance

This question covered the taxation of owner managed businesses. It involved a new business setting up with losses in the first two years of the business. Candidates were first required to identify the best use of the losses. There were then some straightforward marks available for discussing the future business structure.

It was disturbing how few candidates realised that sole trader losses are established by tax year. Knowledge of basis periods and opening year rules was generally woeful. Many candidates believed that all losses in the 1st 4 years are amalgamated together in one carry back claim. In reality, each tax year must be considered separately.

There was little understanding that a loss relief claim can reinstate the personal allowance in a year in which it was previously restricted by high income. Few students were able to calculate tax saving at the margin. Many went into quite unnecessary lengthy reconstructions of entire income tax computations.

Several candidates explained about the need to file a tax return despite the fact that the client had owned a rental property for several years so would already be familiar with this. Few thought about compulsory or voluntary VAT registration, or the employment status of the "assistant".

Some candidates referred to the capital goods scheme if the client bought a computer costing more than £50,000. This is a small manufacturing business. It is most unlikely to buy a computer costing that amount.

Several students included lengthy sections of completely irrelevant material regarding IR35. Given the nature of her business there was no way this could be of any relevance.

Few candidates explained the timing of a large tax bill that would arise when the business became profitable.

Question 3 performance

This question focused on personal taxation. It covered the tax consequences following the death of a client. Initial work had been performed by an incompetent predecessor and the candidates were asked to correct the work done.

Few candidates considered the income tax and CGT position of the deceased for the period up to death. This produced an IT and CGT liability which would then be an allowable deduction from the IHT estate.

There was predictable confusion between exemptions from IT and CGT (e.g. for premium bonds and ISAs) compared to exemptions from IHT (which don't exist). Some candidates were unaware that death is not a chargeable event for CGT.

Many candidates failed to split their answers into the different taxes, preferring to merge them all into one confused paragraph. This may have been caused by timing issues as there was evidence that some candidates had to rush this final question.

Many candidates suggested claiming gift relief to defer the gain on the painting. This was not available as it was neither a business asset nor a gift into a trust.

No candidates considered a deed of variation to redirect the sculpture from the uncle's estate.

Many candidates were hopelessly confused about the basic principles of IHT calculations. This knowledge from Tax Compliance is needed in this paper.

There was a common belief that quoted shares were likely to benefit from 50% BPR. This is only true if someone controls the company. As the entire portfolio is only valued at £90,000, this is clearly impossible. Again, evidence of an absence of commercial thinking.

The question states that Ethel's will left her entire estate to Alice. So no marks were given for talking about a reduced rate where 10% of the estate goes to charity

Summary and helpful hints

Future candidates need to ensure that they are familiar with the technical content brought forward from the Tax Compliance paper as well as the new content in this paper. They need to consider if their **points make commercial sense**. They also need to break their answers down into clearly headed sections that answer the question set.

Candidates must take note of the requirement. The Business Planning: Taxation exam is primarily a written, advisory paper. Candidates will be asked to explain tax consequences and give advice to clients. Merely providing figures and tables will not be an appropriate answer to these questions.

Candidates should also be careful with the time allocation for each question. There were several examples of candidates wasting time by copying out irrelevant material in answering the first two questions and then running out of time in the third question.