



The Association of Taxation Technicians

NOVEMBER 2004 EXAMINATION

ATT PAPER 2

EXAMINER'S REPORT

Part 1

Question 1

A reasonably well-answered question but a disappointingly large number of candidates failed to identify that an 18 month corporation tax period is split into two periods 12 and 6 months.
Average mark 1.08.

Question 2

A reasonably well-answered question with many identifying that accounting period ends after 12 months. Few, however, identified other possibilities.
Average mark 1.06.

Question 3

A reasonably well-answered question with many correctly calculating assessable profit. Many, however, failed to calculate overlap and to identify two relevant parts.
Average mark 1.16.

Question 4

A very badly answered question with few correctly calculating deemed payment and national insurance. Considerable lack of knowledge in this area.
Average mark 0.44.

Question 5

Majority of candidates identified control factor but few appeared to understand and identify the various means of control.
Average mark 0.99.

Question 6

Many candidates correctly identified the assessable profits for 2002/03 and 2003/04 before overlap relief but few correctly calculated overlap.
Average mark – 0.91.

Question 7

A very well answered question with majority of candidates identifying loss arose in early years of trade and stated all available reliefs.
Average mark 1.43.

Question 8

For a straightforward corporation tax calculation question, the type of which is regularly examined, the results were disappointing. Far too many candidates showed a lack of knowledge in this area.

Average mark 1.14.

Question 9

A very badly answered question. Many candidates failed to read the question and attempted to state the definition of a close company. Even for candidates who did not know the definition the second mark merely required stating that CIHC pay tax at full rate. Yet still the average mark was considerably less than 1.

Average mark 0.64.

Question 10

A very badly answered question. The first part of the question merely required a simple CGT calculation, proceeds less cost less indexation yet still the average mark was considerably less than 1. Few showed any understanding of the new rules for intangibles.

Average mark 0.57.

Question 11

A badly answered question with again many candidates failing to correctly calculate the chargeable gain. Many also failed to read the question and reduce gain by taper relief.

Average mark 0.74.

Question 12

As in previous exam sittings many candidates failed to be able to allocate partnership profits between partners. Even for those that failed to allocate profits half of the marks were still available to state assessable profits for the two continuing partners. Yet still the average mark was less than 1.

Average mark 0.88.

Question 13

A reasonably well answered question but a large number failed to read the question for car 2 and made no reference to the tax relief for HP interest in addition to capital allowances.

Average mark 1.01.

Question 14

A very badly answered question with few candidates knowing the rules for post cessation expenses nor the method of giving relief.

Average mark 0.33.

Question 15

A simple group relief question that was badly answered. In many cases the amounts group relieved did not even agree. Any answer giving relief for losses brought forward first and using the correct total amount of group losses would have gained half marks.
Average mark 0.74.

Question 16

Far too few candidates showed an understanding of the £10m rule and to divide by number of associates. Even candidates stating that both companies due date was 1 October would have got half marks yet still the average mark was less than 1.
Average mark 0.91.

Question 17

A reasonably well-answered question. Far too many candidates however appeared to confuse the corporation tax definition (75%) with the VAT definition.
Average mark 1.02.

Question 18

Few candidates showed an understanding of the VAT surcharge rules. Again merely stating that the late 30 June return extends the surcharge period would have got half marks.
Average mark 0.62.

Question 19

Many candidates identified that the £50,000 was to be grossed up but failed to reflect the new 1% NIC rate. (i.e. gross up at 100/59 not 100/60).

Even with a wrong calculation on part 1, half marks could still be achieved by correctly calculating employers NIC and employees NIC and tax (albeit on a wrong gross).
Average mark 0.53.

Question 20

Far too few candidates understand the rules for discounts for VAT purposes. Again even if first part was calculated wrongly, half marks would still be given for use of principle to calculate gross supplies.
Average mark 0.56.

Part 2

Question 1

- 1) Few candidates treated Incorporation Relief as an automatic relief although most candidates were aware of the loss of taper relief on incorporation.
- 2) No comment
- 3) Answered well other than some confusion over the treatment of the salary from the company. Some candidates including this in the income for the calculation of Class 4 NIC.
- 4) No comment

Question 2

- 1) Well answered with many candidates laying out a good demonstration of the capital gains, taper relief available and use of gift relief.
- 2) No comment
- 3) Many candidates ignored the business asset description of the sign and gave it non-business asset taper relief. An estimated 50% of candidates treated the car as a chargeable asset.
- 4) No comment
- 5) S.385 loss relief is carry forward against profits of the **SAME** trade – many candidates failed to indicate this in their memos.

Question 3

This question was answered by the vast majority of candidates. The question was a basic test of candidates understanding of a corporation tax computation and the ability to distinguish between allowable and disallowable items. The majority of candidates passed this question and showed adequate ability to identify the disallowable items.

Although the majority of candidates answered the question well, there were some examples of basic misunderstanding including the application of taper relief to the capital gain and the failure to claim 100% FYAs on the computer equipment. Also from a commercial point of view, a number of candidates displayed a lack of understanding of accounts, as they stated assumptions that an expense disallowed in repairs had been capitalised in fixed assets, which would mean that it had been double counted in the financial statements.

Question 4

This question was generally answered reasonably well.

The majority of candidates passed the capital allowances computation part of the question, although a number failed to distinguish between the treatment for companies and individuals. The majority of candidates failed to include the IBAs in the calculation of total allowances.

Part 2 was the area of most concern as a number of candidates failed to identify that the buildings qualified for IBAs, and that there was a balancing charge, and instead treated the disposal as giving rise to a capital loss.

The answers to Part 3 were mixed in quality, with a significant number failing to understand that the allowances were available over the remaining tax life of the property, instead just applying a rate of 4% to the purchase price.

The majority of candidates answered the VAT section well, although it did show up an area of confusion. This confusion arose on the asset that had a 4 month credit period, due to the rules that this did not qualify for capital allowances in the period, but a number of candidates used this rule for determining the tax point of the asset, hence confusing the capital allowances and VAT regimes.

Question 5

- 1) Well answered other than some confusion over what is an output and what is an input
- 2)(a)-(c) No comment
- 2(d)) Few candidates gained full marks with most candidates offering cash flow or easing administration as the single advantage.
- 2)(e) No comment