



The Association of Taxation Technicians

NOVEMBER 2006 EXAMINATION

PAPER 1 – PERSONAL TAXATION

EXAMINER'S REPORT

General

Overall, the candidates taking this paper appeared well prepared. However, poor handwriting and presentation is still a problem. Some candidates do not read the question properly and then write messages about assumptions they have made which would not be necessary if the question had been understood.

PART I

The majority of candidates attempted all questions. The most common errors were:

Question 2 – using the receivables basis and/or ignoring personal allowances.

Question 4 – deducting expenses from rental income before deducting rent-a-room relief.

Question 6 – using an actual basis for calculation of interest or not calculating the average loan amount correctly.

Question 10 – not understanding how to calculate the accrued income.

Question 11 – many appeared to guess at the answer, others divided the monthly amount by four to show a weekly amount, from which £50 was deducted and then multiplied by 52

Question 13 – failing to show proceeds at £6,000

Question 17– calculating taper relief before deducting losses

Question 18 – calculating taper relief on the amount chargeable to inheritance tax, and then calculating inheritance tax on the reduced amount

Question 19 – deducting value of a 60% shareholding from value of an 80% shareholding

Question 20 – calculating inheritance tax due when question asked for due dates.

PART II

Question 1

This question was attempted by almost every candidate and there were many very good answers. Some candidates lost a mark in the car benefit calculation as they deducted the employee's contribution from the cost price of the car. The calculation of the rental income also caused problems although most calculated the expenses deducted from the rent correctly. The main area where candidates lost marks was in the explanation of the loan interest allowed. Very few mentioned that the taxpayer could withdraw capital based on the 'cost' of the house. Most candidates described the circumstances when interest on a loan would be allowable, but stated that in this case it would not be allowed.

Question 2

This was not a popular question, although many of those that did attempt it produced good answers which covered most of the points. This appeared to be a subject in respect of which either the candidate knew the facts, and therefore produced a good answer, or they did not know, and therefore produced a very brief answer. There were no areas where candidates made mistakes or appeared to misunderstand the question.

Question 3

This was another popular question with most candidates covering the rules for principal private residence and furnished holiday homes adequately.

The main areas where marks were lost were in the explanation of income tax and capital gains tax in connection with the holiday home. Several candidates did not mention the beneficial treatment as a business and simply described the taxation of a rental property.

Question 4

This was not a popular question, although, as for question 2, those that attempted it appeared to know the facts and produced good answers. The main weakness in the answers was a failure to use the circumstances of the taxpayers when giving advice. A few did mention the elderly parents' estate suggesting passing the estate to the grandchildren, but mostly the answers were based on descriptions of Inheritance Tax rules without relating the rules to the particular circumstances of the taxpayers.

Question 5

This question was very popular and there were many good answers. The main areas which caused problems were the calculation of the cost to be deducted from the insurance receipt, and splitting the gain for the ABC plc shares in part 4) between business and non-business assets for taper relief.

The summary of the gains showing loss relief before taper relief was mainly well done. Most candidates also showed the calculation of the capital gains tax (and amount of basic rate tax band left) without any problems.

PAPER 2 – BUSINESS TAXATION

EXAMINER'S REPORT

SHORT FORM QUESTIONS

COMMENTARY

Question 1 – Majority of candidates correctly calculated first year allowances without restriction but few were able to identify writing down allowances for second accounting period.

Question 2 – A well-answered question with majority of candidates correctly stating definition for chargeable gains group.

Question 3 – Many candidates failed to show any understanding of non-corporate distributions. For those that did many failed to identify that only 80% of shares were held by individuals.

Question 4 – A reasonably answered question with majority of candidates able to state the necessary conditions for an effective change of accounting date.

Question 5 – A reasonably answered question but many candidates failed to gross up the dividend received.

Question 6 – A badly answered question with few candidates understanding tax relief for intangibles and restriction for connected party transfers.

Question 7 – Majority of candidates showed a good understanding of corporation tax return time limits and penalties.

Question 8 – A disappointing set of answers with true understanding of opening year rules found in few candidates.

Question 9 – A reasonable set of answers although a sizeable minority were confused and gave the answer of EIS companies.

Question 10 – A badly answered question with few even able to identify possible types of loss reliefs never mind calculating quantum for each.

Question 11 – A fair level of answers but would have expected even better marks for a straightforward group relief short question.

Question 12 – Most identified correct relief for air-conditioning and windows but only a handful correctly knew land remediation relief or how to deal with security fencing.

Question 13 – Most identified that this was a roll over relief question and could state time limits. Few however stated any other conditions.

Question 14 – A badly answered question with few candidates showing any understanding of incorporation relief restriction.

Question 15 – Most could state the effect of short life asset treatment but majority failed to identify non-qualifying types of assets.

Question 16 – Farmers averaging is a common exam question yet few showed any knowledge in this area.

Question 17 – A good set of answers with candidates showing good knowledge of VAT group conditions.

Question 18 – Surprisingly few candidates correctly identified notification date although penalty provisions were fairly well understood.

Question 19 – A reasonable knowledge was shown of surcharge liability notice provisions. Well-answered question.

Question 20 – Few candidates appeared to be aware of the effect of losses set against other income for Class IV NIC purposes.

LONG FORM QUESTIONS

Question 1

Part 1 – It was disappointing that most candidates did not mention the need to register (eg via a CWF1) to pay Class 2 NI

Part 2 – Answered very well by candidates

Part 3 – No comment

Part 4 - No comment

Part 5 – Some candidates suggested registering early for VAT, this is not usually good advice for a retailer

Question 2

Part 1 – Very few candidates knew how to calculate Net Outputs for a partially exempt registration

Part2a – No comment

Part 2b – A disappointing number of candidates noted the need to charge VAT on sale of the property

Part 2c – Answered very well by candidates

Part 2d – Most candidates failed to answer this question correctly with most discussing use of overlap relief rather than the creation of overlap relief

Question 3

Only a handful of candidates attempted this question and for those that did the results were extremely disappointing. Basic statements as regards CGT/Capital allowances and goodwill would have got reasonable marks.

Question 4

The majority of candidates attempted this as one of their three choices for the long form questions. The answers were reasonable on the computational first part.

The second and third parts however were not as well answered particularly in terms of associated companies and connected persons.

The better candidates showed an organised and well laid out set of answers to the computational part and the marks reflected this. A well-planned answer usually performed better than a disorganised one.

Question 5

Part 1 – The tax treatment of finance leases was not known by most candidates

Part 2 – No comment

Part 3 – Many candidates assumed high profits for year 2 based upon the turnover with some candidates assuming a profit of £900,000 as well

Part 4 – Few candidates discussed the option to delay leaving the cash accounting scheme by 6 months

Part 5 – No comment

PRINCIPLES OF LAW

EXAMINER'S REPORT

Question 1

An easy question on PRs and legacies where most candidates were able to score high marks. However, many got confused about the different types of legacies. I did give credit where the explanations and examples were correct, even if the names of the legacies were not.

A surprising number of candidates forgot to explain that PRs have to distribute the monies to the beneficiaries in part 1 of the question!

Question 2

Another question where it was easy to score high marks. However a worrying number of candidates spent time talking about company law, when the question clearly related to partnerships. Candidates would do well to answer the question set, rather than the one they wanted set!

Question 3

Part 1, the definition of money laundering, was poorly answered and should have been a simple 4 marks.

Part 2 again could have been better answered. Some students tended to answer part 3 here. This should have been, and was for some, a good part to gain some easy marks.

Part 3 was answered the best, although students could have gone into more detail.

Part 4 was on the whole done very well by those that did this question with full marks being achieved by most.

Question 4

This question was attempted by a lot of the candidates and generally well answered with high scores being achieved.

Part 1 was where most of the marks were obtained and was easy marks. Although it is worrying that some candidates did not know the names of the courts or the order of the hierarchy.

Part 2 was the weakest part of this question. It was common for candidates to talk about the mischief rule etc. which was not what the answer was looking for.

Part 3 like part 1 was well answered and full marks were awarded to most of those who attempted this question.

Question 5

Only a few attempted this question and if they did it was not done very well. Part 1, it was clear that beneficial rights and overriding interests were not known. Part 2 was mainly answered with breach of contract so the same answer as part 3 and a very few discussed registration which was what this was aimed at, Those that did really did not know the registration law. Part 3 was answered the best and was where the most marks were gained.

Question 6

This question was not, on the whole answered well. Too many candidates spent a lot of time talking about all the different types of resolutions without putting them into context. Too many did not relate the information they put on paper to the specific questions.

On the whole candidates did perform better than in previous sittings and the recent trend of improvement continues.

PRINCIPLES OF ACCOUNTING

EXAMINER'S REPORT

Question1

A very popular question attempted by the vast majority of candidates. Overall, candidates showed a good understanding of types of shares and share issues.

The calculations in respect of the various shares issues caused the most problems for the candidates. Some of these problems were due to not reading the question properly – for example calculating the rights issue for preference shares rather than ordinary shares.

Question 2

A very popular question attempted by the vast majority of candidates.

Overall this was reasonably well answered. Candidates lost straightforward marks due to not understanding margins and mark-ups. The bad debt calculations caused the most problems for candidates.

Both questions 3 and 4 were attempted by only a small proportion of candidates and generally both questions were poorly answered.

Question 3

Candidates struggled to correctly reflect the double entry required regarding the income tax withheld from the payment of interest and part 2 of the question was disappointingly answered by a large proportion of candidates.

Question 4

Parts 4 and 5 regarding contingent liabilities and contingent assets caused candidates problems.

As a general comment on question 4, there were a number of easy marks available to a reasonably well prepared candidate who read the question carefully. Too many candidates lost marks by apparently misunderstanding the question being asked. For example, several candidates failed to score marks in respect of part 9 of the question referring to whether company was a going concern or not, as opposed to answering the question asked.