

Examiner's analysis interview: F6(UK) – Taxation

Interviewer: Welcome to the examiner's interview for F6 (UK), Taxation. The examiner has provided the answers and his words are spoken by an actor.

The interview covers a range of issues, focusing on candidates' performance over the last four exam sessions, example student responses with advice for improvement, and looks forward as regards future changes.

But firstly, could you review the changes that have been in place since the June 2011 session?

Examiner: Yes. Firstly, Questions 3, 4 and 5 have been for 15 marks each.

This approach has worked very well, and students should have found time allocation much easier.

Each paper has had 5 and 15 marks on inheritance tax. In June 2011 there were 15 marks, 6 marks in December 2011, 15 marks in June 2012, and most recently 7 marks in December 2012.

These questions have all been generally well answered, particularly the computational aspects.

More than one topic can now be examined in Questions 4 and 5. For example, Question 5 from December 2011 covered groups, overseas aspects, and inheritance tax. Question 4 from June 2012 covered the purpose of taxation in a modern economy and trading losses for an unincorporated business. And Question 5 from December 2012 covered personal pension contributions, ISAs, and inheritance tax.

This approach makes it easier for me to cover the entire syllabus, and also to examine those areas of the syllabus that students tend to find more difficult without unduly penalising them.

Interviewer: And what about the other syllabus areas that have changed?

Examiner: Groups and overseas aspects of corporation tax are now examined in either Question 2, 4 or 5 for up to 15 marks. For example, groups (for five marks) and overseas aspects (for four marks) were examined in Question 5 from December 2011.

The value added tax section of the syllabus has been expanded by the inclusion of group VAT registration and imports, exports and trading within the European Union.

The supply of services within the European Union was examined for two marks at June 2011, and imports and EU acquisitions were examined for four marks at December 2012. Unfortunately, in both cases there was little knowledge of the correct VAT treatment, particularly the reverse charge procedure.

Interviewer: And can you explain the extent to which students are required to think about their answers?

Examiner: The paper continues to include aspects where students are required to think about their answers in order to obtain good marks. For example, in December 2011 I asked students to explain how paying a pension contribution would preserve the personal allowance, and how contributions towards the use of a company car could be reallocated on a more beneficial basis. Then in December 2012 students had to advise whether or not there would be a tax saving if a business was incorporated. The December 2011 requirement was quite well answered, but in December 2012 this was generally not the case. Too many

students overlooked basic concepts, and made basic mistakes, such as calculating NIC in respect of dividend income.

Interviewer: So what is your overall aim when setting a paper?

Examiner: My aim is to set a paper that is always passable by those students that have correctly prepared for the examination. The paper is not intended to contain any surprises, although questions will not always be presented in the same format to avoid predictability. For example, in June 2012 (rather than calculating NIC) I asked students to state what classes of NIC were applicable, and who was responsible for paying them.

Interviewer: Please could you give us a review of the exam performance of candidates over the previous four exam sessions?

Examiner: The June 2011 session saw a very good student performance with a pass rate of 51%. In particular, the inheritance tax question was answered very well. However, I should mention that time was sometimes wasted when something should have been obvious. For example, if income exceeds £250,000 then no personal allowance is available – there is no need to prove this.

Interviewer: And what about the December 2011 session?

Examiner: This was another good performance, although many students only just achieved a pass mark rather than excelling. The pass rate was 48%.

The property business question was very well answered, although the sections on group relief and double taxation relief caused problems. The group relief aspect was not as complicated as students often tried to make it. For double taxation relief, I gave the students some guidance by telling them how to layout their answers, but this advice was often ignored.

My examiner's report included the advice that students should sometimes stand back and think about their answers to see if they make sense. For example, it should have been fairly obvious that an answer with six marks attached to it was not simply that "no inheritance tax was due".

My guidance to students was often ignored. For example, for the inheritance tax calculation students were told to ignore annual exemptions – but they unnecessarily complicated their answers by not heeding this advice.

Interviewer: And moving on to June 2012?

Examiner: The pass rate this time was lower at 45%, but there was no apparent reason for this slight dip in student performance.

However, I should mention that students found the question on trading losses (Question 4) particularly difficult. The requirement was to identify the loss relief claims that were available, and to explain which claims were the most beneficial. But too many students provided calculations (despite being told not to do so), and did not consider alternative claims.

Given that Question 4 was the most difficult of the three 15-mark questions, it was a sensible strategy to leave this question until last. However, I saw many students attempting this question in preference to the much more straightforward Question 5 that covered inheritance tax.

The value added tax aspects also caused problems. Firstly, my requirement to give advice on voluntary registration often resulted in a discussion of VAT registration, despite the business in question already being registered. And secondly, many students explained the time of supply rules without relating them to the information given in the question – the 14-day rule for issuing an invoice was irrelevant.

Interviewer: Finally, what about December 2012?

Examiner: This was another solid performance, with a pass rate of 47%.

Students again found Question 4 particularly difficult. The main requirement was to compare the tax liabilities of a business on a self-employed basis (the tax figures for this were provided) with those that would arise if the business was incorporated – firstly with profits withdrawn as remuneration, and secondly with profits taken as dividends. The calculations were fairly straightforward, but too many students did not spend enough time planning how to approach this question.

One particular problem I found at this sitting was the use of workings. In some places they were far too detailed - many calculations could have been included within main computations. But when it came to the share pool, there was often a complete lack of workings for the indexation calculations – which made the marking extremely difficult.

Students should also note that once the treatment of an item of exempt income has been indicated by the use of a zero, there is no need for any further explanation.

Despite being covered in my Finance Act article, hardly any students were able to provide relevant details regarding the production of accounts and computations using the inline eXtensible Business Reporting Language.

Interviewer: I understand that you are now going to show some real life examples taken from actual student responses?

Examiner: Yes that's right. These are examples that I selected from marginal pass and fail candidates for the June 2012 session.

The first example demonstrates the importance of reading a question's requirements. For example, I may instruct students to stop their calculations at a particular point. In this example the requirement was just to calculate taxable income, but the student has wasted maybe two minutes by continuing their answer to calculate the tax liability.

Interviewer: And what about time management?

Examiner: The marks that I allocate to a question are a very good indication of the length of answer expected, so a one mark requirement should be a maximum of one sentence. The first example shows

the answer of a marginal fail student which was awarded a $\frac{1}{2}$ mark.

The second example shows how a marginal pass student wrote less, but was awarded one mark. So it's better to mention several points briefly, rather than cover one point in too much detail.

Interviewer: I understand that you publish a report following each examination session, so what can students learn from these reports?

Examiner: It's often the case that same mistakes are made time and time again. For example, I often mention the necessity of learning basic rules such as those applicable to a long period of account for corporation tax purposes. In the June 2012 session the question involved a period of 16 months. The example shows the approach of a marginal fail student, and not learning the applicable basic rule meant that scoring a good mark for this section was impossible – in fact, it was awarded just two marks out of the seven that were available.

Interviewer: What can you tell us about workings, is it sometimes the case that students use too many?

Examiner: Yes, I see that quite often. It's important to not have more workings than are necessary from a timing perspective. In this example, the student could easily have omitted the second working and saved some time.

Interviewer: Thanks for those examples. Now, before the marking starts, what guidance do you give to your marking team?

Examiner: I give my marking team quite detailed guidance, and it would be useful for students if I covered some of the more important points.

Firstly, I tell markers to only penalise once for each mistake. For example, marks should be given for the calculation of an income tax liability, even if the figure for taxable income is incorrect. Sometimes a student will make a repetitive mistake such as deducting several adjustments when instead they should all have been added. Markers are told the students should only lose one mark and then mark everything else as correct.

Interviewer: And what about where there are several marks available for a computation or working?

Examiner: A good approach is to look at the total mark available and then a $\frac{1}{2}$ mark is lost for each mistake. For example, an answer for two

marks might be $14,000$ ($\frac{1}{2}$ a mark) $- 13,100$ ($\frac{1}{2}$ a mark) $= 900$ ($\frac{1}{2}$ a mark) $\times 70\%$ ($\frac{1}{2}$ a mark) $= 630$. If the student gets this answer but then makes a mistake such as adding instead of subtracting, not using the working in the main calculation, or doing something else (such as dividing by two) then I would instruct markers to give just $1\frac{1}{2}$ marks.

Interviewer: What about the situation where an item does not need to be shown or adjusted for?

Examiner: Generally, where there is a mark for not showing something such as an exempt item of income (and this is always indicated by a zero in the model answers), then the student must show a zero entry or state that no adjustment is required in order to obtain the mark.

Interviewer: How do you approach an answer that is muddled or confused?

Examiner: When there are two ways of marking a computation (such as when donations have been deducted at the wrong point in a loss calculation), I instruct the marking team to mark the way that gives the highest marks (ignoring the incorrect item, such as the donations), to be as fair as possible.

Interviewer: What happens if a student makes a relevant point but in the wrong section of the answer?

Examiner: Unless completely out of context, markers will award marks if relevant points are made in the wrong section. For example, if a point pertaining to part (b) is made in part (a) then marks will still be awarded as appropriate.

Interviewer: Any final points you would like to mention before we move on?

Examiner: Yes. Markers are aware that the marking scheme is the result of detailed preparation, and that students cannot be expected to achieve the same result under time constraint. What I am looking for is the correct answer, and not the perfect answer as per the marking scheme.

Interviewer: Ok, we have looked back at the past four sessions, gone through some examples from June 2012 and seen what guidance you give your marking team. Perhaps you could now look ahead at what's going to change for 2013.

Examiner: There are several changes that students need to be aware of if they are sitting my examination during 2013. It would be useful to first

summarise those items that have been added to the list of non-examinable topics. These are:

- The child benefit income tax charge
- Junior ISAs
- The reduced rate of inheritance tax where charitable gifts are made
- Capital allowances in respect of motor cars already owned at April 2009
- Capital allowances as regards apportionment in order to establish the rate of writing-down allowance or the amount of annual investment allowance
- The new penalties for late filing of VAT returns and the late payment of VAT, since HM Revenue and Customs have yet to introduce them
- The temporary and proposed bases of calculating output VAT where fuel is provided for private mileage.

Interviewer: Are there any changes in the terminology that will be used when presenting examination questions?

Examiner: I just need to mention a couple of changes. Firstly, the term 'statement of profit or loss' will now be used rather than 'income statement'. And secondly, the term 'qualifying charitable donations'

will be used rather than 'gift aid donations' when referring to a company's donations to charity.

Interviewer: I understand that more information than previously will be given in the tax rates and allowances section of the examination regarding company cars?

Examiner: Quite right, and here is the new format.

Interviewer: I also understand that there are quite a few changes in relation to the examinability of overseas branches?

Examiner: Yes, the new election for exemption of profits of overseas branches is examinable, as are the circumstances where an election will not be beneficial. In an examination context, students should assume that the exemption option is always available. However, I will not be examining the more complex aspects, and the set-off of qualifying charitable donations and losses is no longer examinable.

All of these changes are reflected in the updated version of my overseas aspects of corporation tax article.

Interviewer: And speaking of articles, can you please tell us what new articles you have published?

Examiner: Certainly. There are three new articles covering the Finance Act 2012, motor cars and taxable benefits.

Interviewer: And what about updated articles?

Examiner: All of my previous articles have been updated. There are five in total, although three of them are in two parts. The articles cover:

- Inheritance tax (in two parts)
- Capital gains tax (in two parts)
- Value added tax (in two parts)
- Groups
- Overseas aspects of corporation tax

Interviewer: And finally, what about changes in future years?

Examiner: We are making a change to the exam year, and for the tax papers, this will follow the Finance Act.

This change will take effect for exam year 2014, although initially there should effectively be no change as the June and December exam will still be based on the Finance Act passed in the previous July. There is a proposal to change the structure of the exam from

June 2015. The proposal is to have three sections for the F6 exam. The first section would contain objective test questions to give wide syllabus coverage, then a section of short form questions and finally a section with long form questions. We are consulting on all the proposed changes, after which we will produce a specimen paper. This will be available on our website when we finish the consultations.

Keep watching the website for more information.

Interviewer: Thanks very much.