EXAMINERS' REPORTS NOVEMBER 2025

CHIEF EXAMINER'S COMMENTS

Results

The results this session were uniformly good with only one paper dipping below a pass rate of 40% (Domestic Indirect Taxation at 39%). Whilst the Taxation of Owner Managed Businesses Advanced Technical paper had a pass rate just below 50% (48%), it was notable there were a large number of very well-prepared candidates with 13 gaining a distinction. Although the Taxation of Larger Companies and Groups Advanced Technical paper had fewer candidates gaining a distinction, the quality of answers in general was very good and as a result, there was a very high pass rate of 74% on this paper.

Feedback from Examiners

The feedback from examiners reveals nothing that hasn't previously been said about exam technique:

1) Failing to focus on the requirements of the question so that time is wasted on irrelevant or peripheral areas that will gain little or no credit. When answering a question, it is worth pausing every now and again to re-read the requirement and to ensure that what is being written is focussed on that requirement.
2) Where a question refers to a specific tax or taxes as opposed to tax in general, there will be no marks available for discussing taxes other than those specified.
3) There is no need to restate the question when answering it.
4) On the APS questions, as in real life, candidates should be alert to there being questions beyond those directly posed by the client which may need to be answered. This is not to say that lots of irrelevant material or clearly hypothetical questions should be considered, just that there may be important elements to consider that a client hasn't raised. There was a clear contrast between the APS OMB and Individuals questions this session. For the OMB question, it was clear that the decision to incorporate had been made (by your tax partner) and that the requirements were limited to things relating to how to incorporate. Therefore, a discussion on whether to incorporate wasn't required and wouldn't gain credit. Conversely, the Individuals question had an open requirement so professional scepticism of the client's plans should have been applied and other relevant questions that may have needed to be answered should have been considered.

AWARENESS

Module A: VAT including Stamp Taxes

General Comments

Generally, there was a disappointing performance by most candidates.

Question 1

There continues to be confusion over the rules on the historic and future tests for compulsory VAT registration, including the relevant dates for both notification and the effective date of registration.

Question 2

The most common errors were in relation to the gift of the pens. Most candidates did not appreciate that as the cost was greater than £50, then output VAT must be accounted for but the input VAT could be recovered. Some candidates thought that the input VAT was irrecoverable and the output VAT only needed to be accounted for on the excess cost over £50. Some candidates apportioned the input VAT on the cost of the car and claimed the business use proportion.

Question 3

This question was very badly done, with the majority of candidates not appearing to be familiar with the simplified VAT partial exemption tests. Most candidates did a full partial exemption calculation which scored no marks, and even where it was recognised that all the input VAT was recoverable, several candidates did not actually answer the question, which was to calculate the annual adjustment.

Question 4

The VAT treatment of land and buildings continues to be a weak area for some candidates. Several candidates failed to recognise that due to the cost of the building, the capital goods scheme applied and therefore lost marks.

Question 5

Although this question was generally well done, several candidates did not seem to understand that if a trader only makes exempt supplies, they cannot register for VAT. Some candidates thought that traders could not register if they had been trading for less than 12 months.

Question 6

The majority of candidates recognised the reason why Arbol SL could not be part of the VAT group but some then went on to calculate the VAT for the group including Arbol SL. Some candidates did separate computations for Treee Ltd and Branche Ltd and then netted off the results rather than doing a single computation. Most candidates did not recognise the VAT treatment of the purchases from Arbol SL under postponed VAT accounting, with some seeming to think that it meant that accounting for the VAT on the purchase would be postponed to the next VAT return.

Question 7

Despite the question stating that the late registration was careless, and requiring the maximum penalty that could be imposed, some candidates wasted time discussing whether it was deliberate and/or deliberate and concealed, prompted or unprompted, and minimum as well as maximum penalties. Candidates are reminded that where figures are provided, they are generally expected to use them, as although the question contained the information in order to calculate the potential lost revenue and the penalty thereon, this was regularly ignored.

Question 8

The calculation of VAT inclusive relevant costs proved problematic. Despite the question stating that Saiqa was a limited cost trader, some candidates argued that she was not and calculated the VAT at 11%. A more common error was to omit to reclaim the input VAT on the printer and where this was done, some candidates calculated it at 16.5%.

Question 9

Some candidates calculated the VAT at 20% on the margin, with a few even calculating it on the loss.

Question 10

Some candidates seemed unaware of the VAT penalty regime and wrote about the common penalty regime. Several candidates failed to appreciate that the maximum number of penalty points was 4 and so thought that a fifth would be given on the late submission of the return for 31 March. Most candidates were vague as to when the points would be reset to zero.

Question 11

The most common error was to not gross up the cost of the new freehold commercial building for VAT before calculating the SDLT. Some candidates missed the fact that the house was subject to the additional rate of SDLT as it was a second property. A few candidates grossed up the cost of the house for VAT.

Question 12

No comments.

Module B: Inheritance Tax, Trusts & Estates

General Comments

Overall performance was mixed on this exam. Those candidates who prepared well were able to demonstrate good knowledge and understanding and picked up marks easily throughout the exam. However, some candidates seemed much less prepared for some of the areas examined, demonstrated by a lack of knowledge in some areas or a lack of attempt at some questions.

Question 13

Most items in this question were treated correctly by most candidates; however, a common error was with the value of the units in the unit trust. The majority either used the quarter up rule, or the average of the quoted values as if they were quoted shares, whereas for unit trusts the value is the lower of the bid and offer prices quoted. Some candidates allowed the debt for the verbal promise which is not legally enforceable and therefore not allowable. And some candidates used the residence nil rate band which was not available since the house was not left to a direct descendent.

Question 14

A lot of candidates struggled with this question, albeit well prepared candidates achieved full marks. The majority of candidates did not calculate the gross chargeable transfer, although some calculated it, but then did not use it in the calculation of IHT due on death. Rather than providing a separate working for lifetime IHT, some candidates merged their computation for lifetime IHT and IHT on death, using the same nil rate band for both calculations, whereas the full NRB was available at the time of the gift, but not at the time of death.

Question 15

Most candidates managed this question well enough however a common mistake was missing that the payments to the daughter's pension would be covered by the normal expenditure out of income exemption, and some thought that this was a family maintenance payment and out of scope of IHT. Some candidates used the incorrect amount of marriage exemption of £2,500 for a grandchild or remoter issue, but most understood that the gift to the nephew would only be eligible for the £1,000 exemption.

Question 16

Many candidates did well on this question. However, some struggled with the tax pool in general, some calculated the tax pool but then didn't add it to the tax payable, and some included the income tax on the amount covered by expenses which should not have been included in the pool. Other common mistakes included incorrect treatment of the trustee expenses.

Question 17

Many candidates also did well on this question. However, some deducted Quick Succession Relief (QSR) before calculating IHT. The QSR calculation had 4 marks. Most candidates were getting the marks for the IHT paid on the previous transfer of £40,000, and for 20% being the correct percentage for death being between 4 and 5 years after the first transfer. Mistakes relating to these included using the full death estate of £940,000 instead of the £40,000 IHT previously paid, and some incorrectly used 40% which is the rate for death being between 3 and 4 years after the transfer. The most common mistakes were with the other 2 marks for QSR, being the increase in the donor's estate as a result of the first transfer, and the increase plus the IHT paid.

Question 18

Most candidates understood that the combined ownership period resulted in 100% BPR, however many missed that the BPR could not exceed the BPR that would have been available had the original property not been replaced. Very few candidates were aware that HMRC will allow an adjustment to reflect the growth in the replacement shares.

Question 19

The most common mistake in this question was deducting the £100k gift to his daughter (being a PET) from the NRB. Some candidates calculated the notional IHT at 25% rather than 20%, and some were counting the number of quarters between the date of commencement and the date of exit incorrectly.

Question 20

Performance was mixed on this question. Many candidates did very well, but some struggled to use the related property rules, and some did not demonstrate that they had considered the stand alone values.

Question 21

Although this question was mostly managed without any problems, some answers were very short.

Question 22

Most candidates were able to explain why the disposal qualified for business asset disposal relief. A common problem with the calculation was using the incorrect annual allowance, which was divided by two due to it being a second trust. A minority of candidates used incorrect, or out of date, CGT rates.

Question 23

Although most candidates did well on the first part of this question, they really struggled with the second part regarding the income taxable on Mariam, with some saying that it wasn't taxable. It was necessary to split the income between tax years 2024/25 and 2025/26 and also split the 2025/26 income between savings and dividends, and then the net amounts needed to be grossed up. Well prepared candidates did well, but the majority struggled with this part.

Question 24

This question was mostly done very well, however some candidates confused the late filing penalties with other penalty rules.

Module C: Corporation Tax

General Comments

There was a wide range of abilities demonstrated in this sitting. There were a significant proportion of candidates who were unprepared and could not demonstrate an understanding of basic principles. On the other hand, well prepared students tended to score well in this module and obtain high marks.

Question 25

It was disappointing to see candidates forgetting to explain the associated companies. In any case, the explanations were often rushed and vague. A significant minority of candidates thought dividends were taxable as part of Taxable Total Profits and did not understand the concept of augmented profits.

Question 26

Candidates who used a standard presentation often scored well in this question. The 50% first year allowance was not dealt with well and the balancing charge was often omitted or dealt with in an inadequate manner.

Question 27

Well prepared candidates made a reasonable attempt and they generally scored a pass on this question. Answers were often unclear about the impact of the repayments and frequently failed to deal with both repayments. Many candidates did not know the appropriate rate to use.

Question 28

Candidates generally scored well with nearly all candidates obtaining at least a couple of marks. Many candidates failed to provide the required date or provided an incorrect date.

Question 29

Most candidates obtained a pass on this question. However, indexation allowance was not well attempted and the rule that it cannot create a loss was not known in most cases. It was concerning to see some candidates talk about Capital Gains Tax in this question.

Question 30

It was clear which candidates had prepared for this topic. Candidates that had prepared scored a pass on this question, but it was also common to see no attempt made. A few candidates wasted time in part two where the requirement was to 'state one exemption'. They provided a lot of detail on multiple exemptions even though only one mark was available for that part.

Question 31

Many candidates scored full marks in this question. The most common error was in allocating the property income amongst the accounting periods. Some answers were not sense checked; in some cases more than 16 months of income was recognised between the accounting periods.

Question 32

This was well attempted by the majority of candidates with many scoring full marks.

Question 33

Candidates did better when adopting the standardised approach to profit adjustment. Too many candidates started with gross profit and produced a confused response to the question. There was often confusion about when to add back an expense. Goodwill was frequently not addressed in answers.

Question 34

This question was generally well answered. However, candidates that did not use a standard presentation produced confused answers and struggled to obtain the marks. It was also common for trading losses to be set against trading income only. Frequently Corporation Tax liabilities were not calculated and this part of the requirement was ignored.

Question 35

This question was generally poorly attempted. Candidates struggled with the idea that the interest paid would be offset against the interest income. In fact, candidates often thought that interest paid was a component of income. Too many answers lacked annotations and were rushed. This may have been reflective of this question being later in the exam.

Question 36

Candidates often failed to explain in this part. In addition, there was confusion about the distinction between direct ownership and effective interest. A significant number of candidates stated all companies were in the group without justifying why or simply repeated the ownership percentages from the question without linking it to any criteria. In either case it was difficult to award credit as they had to failed to demonstrate understanding. Candidates needed to be specific when asked about the advantage of a gains group. Some answers had generic statement like ‘tax efficiencies’ and this was not enough to score credit.

Module D: Taxation of Individuals

General Comments

Overall performance was mixed, with well-prepared candidates doing very well. However, some candidates did not appear to be as well prepared, as there was evidence of a lack of understanding of some of the topics.

Question 37

The majority of candidates did very well on this question. Where mistakes were made, the most common was the restriction of the personal allowance, by using the salary amount rather than total income. Some candidates missed the savings nil band, and some used the additional dividend rate rather than the higher rate.

Question 38

Performance on this question was mixed. Some candidates struggled to calculate the correct rental income under the cash basis, with the change in rent during the year. Some allowed the mortgage interest, although most knew that this was an income tax reducer rather than a deductible expense. Building insurance and repairs were mostly dealt with correctly, however many were stating that the furniture was disallowable rather than allowing the replacement of the bed less the proceeds for the old bed. Some missed that the replacement of the fridge needed to be adjusted by the improvement element.

Question 39

Most candidates did well on this question, however some got confused when trying to explain how the pension contribution impacted the personal allowance, thinking it reduced the actual personal allowance available rather than reducing the restriction of the personal allowance.

Question 40

Most candidates struggled with this question, albeit well prepared candidates did well. Some candidates only considered the transfer of the camera and missed the benefit for the use of the camera during 2025/26, and some that did consider the benefit for the use correctly pro-rated for 6 months use but forgot to take 20% of the value. While calculating the benefit for the transfer of the camera, most did not compare the current market value to the original market value less the amounts already charged for use of the camera, before deducting the price paid. Many only considered the market value at transfer, or if they compared this to the original market value then they forgot to deduct the amount already charged for use. Some thought that the parking space near work was a taxable benefit.

Question 41

Most candidates did well, however some were doing monthly calculations, where it should be annual for a director, and the monthly calculations were not done well. There is much more work involved in monthly calculations, so it is important to read the question carefully and bear in mind that calculations for director's NIC are annual. Some treated the monthly salary as the annual salary, so calculations were incorrect. There was occasional use of out-of-date rates, so it is worthwhile checking the tax tables provided, especially if you are sitting the exam under a different Finance Act from your study materials.

Question 42

This was the question that candidates struggled with most, with some not attempting it. Other than some very well-prepared candidates who scored well, most struggled to identify the gift of shares from the company and instead wrote about various share scheme and the different tax implications on the granting of options and exercising of options, despite there being no options in the question as the employee had already been given shares. While some stated that the company must report to HMRC, most weren't able to advise that this was necessary by 6 July following the tax year.

Question 43

Most candidates did well on this question, albeit some wasted time working out the taxable benefit using the average method, which was already provided in the question to avoid having to calculate it. Some candidates used an incorrect rate of 7.5%, and some calculated the number of months incorrectly.

Question 44

Most candidates struggled with this question. The question said to "calculate" the tax reducer, but the vast majority of candidates did not prepare a simple income tax computation for Camila and assumed that the PAYE deducted was the correct tax liability. Many provided mainly written answers with no calculations, with some suggestions that the tax reducer was the difference between the salary and the PAYE deducted, or 30% of the PAYE deducted, or 30% of the salary plus the PAYE deducted.

Question 45

Candidates mostly did well on this question, particularly with the use of the loss. However, some struggled with the clawback, and with working out the amount to be deducted from cost for the income tax relief which had been given but not withdrawn.

Question 46

Performance on this question was mixed. It seemed candidates either knew exactly what to do and scored full marks, or they really struggled with the cost allocation between the cash and the shares.

Question 47

Most candidates incorrectly deducted the loss of £15,000, which should not be taken into account at the time of calculating the payment on account (POA) for the residential property, as the loss was incurred after the POA was due. It would get deducted for the final CGT liability at the end of the tax year, but not at the point of calculating the POA. Many candidates also seemed to misunderstand that the payment on account was due 60 days after the sale of the property and instead wrote about payments on account not being required for CGT.

Question 48

Most candidates did well on this question, however a common error was saying that the daily penalty of £10 could apply for up to 90 days rather than 31 days.

Module E: Taxation of Unincorporated Businesses

General Comments

Generally, there was a disappointing performance by most candidates or what was a relatively straightforward paper.

Question 49

The most common errors were to not gross up the patent royalty and even when this was done, most candidates omitted to add on the tax retained to arrive at the Income Tax liability. Some candidates deducted the patent royalty against total income rather than from trading profit and others treated it as a gift aid donation.

Question 50

This was generally badly done. Most candidates gave stock answers for the due date of submission for the tax return of 31 October or 31 January rather than relating their answer to the scenario given. Several candidates omitted the automatic £100 penalty for late filing and instead wrote at length about penalties for failure to notify and whether it was careless or deliberate/concealed.

Question 51

The most common error was the incorrect apportioning of the SBA, with several candidates apportioning by 2/10 rather than 2/12 for the 10 month period.

Question 52

Several candidates did not apply the tax year basis rules. Where the transitional profits were dealt with, many candidates spread them over four years rather than five, and only included one years' transitional profits in 2025/26, despite the question stating that Shafila had ceased to trade.

Question 53

Several candidates thought that the election was to spread the adjustment income, rather than to be taxed on the full amount.

Question 54

There was some confusion with the rules for pre-registration input VAT. Some candidates wasted time writing about SBAs despite there being no indication in the question that the building qualified. Explanations were often vague, with an obvious lack of knowledge of the case law with regard to pre-trading expenditure on capital assets.

Question 55

Despite the question stating that flat rate expenses were not to be claimed in respect of the car, several candidates calculated the allowable deduction using the fixed rate mileage allowance. The adjustments for the use of the house and/or the goods for own use were often the wrong way round, and some candidates claimed the cost of, or calculated capital allowances on, the van.

Question 56

Partnerships continued to cause problems for a lot of candidates, who didn't seem to understand that a 'salary' paid to a partner is not a real salary, but an appropriation of profit, and would increase rather than decrease the loss. Again, some candidates did not apply the tax year basis rules and just apportioned the loss without calculating Steve's allowable loss for 2025/26 as per the question requirements.

Question 57

Common errors included carrying forward the balance of the loss after relief against total income in 2024/25, offsetting the brought forward loss against total income rather than trading profit in 2025/26 and calculating NIC on taxable income, sometimes at 8% rather than 6%

Question 58

The cost of the land was often apportioned using acres rather than values and many candidates did not seem to appreciate that as the full proceeds were reinvested, then the full gain could be deferred, with some thinking that £15,000 of the gain was chargeable. Candidates are reminded that if they are asked for a date, then they must state a date as stating the rule will not score any marks.

Question 59

Some candidates wrote at length about the conditions for incorporation relief and gift relief (and even business asset disposal relief) which wasted time and did not score any marks. Candidates are reminded that if they are given figures, they are expected to use them.

Question 60

Although generally well done, common errors included business asset disposal relief not being capped at £1 million, omitting to deduct the AEA and using the wrong tax rates.

ADVANCED TECHNICAL

Taxation of Owner Managed Businesses

General comments

Overall, candidate performance was mixed on this paper. As in previous sittings, candidates generally performed well in computational aspects, such as the calculation of the Corporation Tax liability of the agricultural contracting company in question 1 and the calculation of taxable profits and the Income Tax and Class 4 National Insurance liability of the self-employed garden designer and installer in question 5.

Candidates performed less well in explaining the employment taxes and Corporation Tax implications of two alternatives for an employee to receive shares in an unlisted company in question 2 and the Capital Gains Tax, Employment Related Securities and Inheritance Tax aspects of question 3.

A common theme was candidates not achieving fairly straightforward marks by not stating when a return was due for submission or a tax liability was payable.

On written elements of the paper, it is recommended that candidates review the requirement closely and tailor their answer to the given scenario. In some cases, particularly questions 2 and 3, candidates have written at length about areas that were not relevant to the question, wasting time that they may have needed to complete the requirements of other questions.

Question 1

This question required candidates to calculate the Corporation Tax liability for a long period of account, including adjustments to profits, Capital Allowances computations and loss relief.

Most candidates recognised that two Corporation Tax accounting periods needed to be considered. Better prepared candidates approached this logically, first calculating the tax adjusted trading profits for the whole 15-month period, before separating the period into the two accounting periods. Other candidates tried to complete this process as one step and therefore often lost marks.

The majority of candidates scored well on the Capital Allowances computations, with some even managing to gain all the marks available for the Capital Allowances component. That said, many candidates did not treat the double-cab pick-up truck as being a car (and only therefore eligible for writing down allowances in the special rate pool) and others failed to pro-rate the Annual Investment Allowance for the 3-month period ended 31 March 2026.

A common error was incorrectly calculating the chargeable gain on the sale of the plough or omitting it altogether, with only the best candidates picking up these marks. Some candidates calculated the gain correctly but allocated the gain to the incorrect accounting period.

Surprisingly, many candidates failed to state the correct due dates for filing the Corporation Tax returns and the deadline for paying the Corporation Tax liability for the year ended 31 December 2025.

Overall, this question was answered well, with the majority of candidates achieving strong marks.

Question 2

This question required candidates to explain the employment taxes and Corporation Tax implications of an EMI share option award and shares issued at par value to an employee.

Overall, candidates performed poorly with this question. The question stated that all qualifying EMI conditions had been met, yet many candidates went into unnecessary detail discussing each condition. Similarly, considerable time was spent discussing and calculating the Capital Gains Tax position when this was not a requirement of the question.

Whilst some candidates were able to identify that the shares in the first scenario would be readily convertible assets, many failed to go on to explain the correct National Insurance position for that scenario. There was also a general confusion regarding the application of the difference classes of National Insurance. In particular, candidates did not distinguish between Class 1 primary and secondary National Insurance and seemingly confused Class 1A with Class 1 National Insurance. The calculation of the Income Tax charge was generally well performed, although many candidates failed to state that there were no Income Tax implications on the grant of the EMI option.

Candidates scored less well in the second scenario, with many candidates missing the fact that these were not share options and that the shares had immediately transferred to the employee. Marks were available for discussing the Corporation Tax deduction rules, but very few candidates were able to demonstrate a clear understanding of these provisions.

Question 3

This question required candidates to explain the Capital Gains Tax and Income Tax implications for gifts of shares and a warehouse, along with a company purchase of own shares. Candidates were also asked to explain the Business Property Relief position for Inheritance Tax for the recipient of one of the gifts.

Candidates performed poorly on this question. Most concerning was the large number of candidates writing 1,200-1,600 words for a 15 mark question. Candidates’ answers should reflect the number of marks available for the question and writing too much will undoubtedly take time away from other questions.

Candidates are again reminded to read the question properly, as most struggled with the second requirement because they were answering in the context of Marianne rather than Oakley. However, there were significant numbers who still showed a basic lack of understanding of the Business Property Relief rules for Inheritance Tax.

The company purchase of own shares was generally well attempted and is where candidates gained most marks. Although only one or two candidates mentioned the need to notify HMRC of the repurchase.

Candidates generally performed poorly in relation to the gifts. It was disappointing, on many occasions, to see pages devoted to repetitive analyses of Business Asset Disposal Relief, with a short paragraph or two as an afterthought to the effect of ‘gift relief would be preferable’, which is why most of the marks related to gift relief. That aside, there were many and varied technical concepts being confused in this section of most answers.

Finally, candidates are reminded of the need to tailor the answer to the scenario. Many candidates remarked on the position ‘if’ something is the case or simply listing conditions with no analysis relevant to the scenario.

Question 4

This question required candidates to calculate the maximum cash repayment available following a Research and Development (R&D) tax relief claim, as well as the trading losses carried forward.

It was generally well attempted by candidates who understood the R&D scheme available to loss-making SMEs. Very few candidates correctly specified why the Ravenscroft costs could be claimed and the Thornbridge costs could not.

An area where candidates demonstrated a lack of knowledge was the new rules for sub-contracting R&D.

Question 5

This question expected candidates to calculate the taxable trading profits and the Income Tax and Class 4 National Insurance liability of a self-employed garden designer and installer.

In general, this question was answered extremely well and most candidates had a good to very good understanding of the issues being tested. The technical understanding was strong and the answer format was usually logical and easy to follow. Some candidates came close to full marks.

There were however several areas of common errors in this question:

- A material number of candidates failed to add back the proprietor's drawings. As this was £55,000, it had a significant impact on the final Income Tax and Class 4 National Insurance liability. More worryingly, several candidates treated the drawings as if they were company dividends and applied dividend tax rates to these sums.
- Claiming Capital Allowances on the fixed asset additions in the year
- Failure to apply the personal savings allowance to the interest received
- Deducting the rental income loss against general income
- Recognising the need for a fixed rate mileage claim for the van but failing to add back the profit and loss account charge
- Deducting personal pension contributions and Gift Aid donations from gross income rather than extending the basic rate Income Tax band

Question 6

This question required candidates to comment on and calculate the PAYE and National Insurance position on a termination package. Performance on this question was mixed.

Candidates generally recognised that a Post Employment Notice Pay (PENP) adjustment was required, although very few calculated it correctly. Once calculated, it was well understood that PENP was to be deducted from the s401 ITEPA 2003 payments.

The tax treatment of the ex-gratia payment was generally good and candidates were able to explain that Class 1A would be due by the employer on any excess over the £30,000 exemption. Candidates also demonstrated good knowledge on the exemption of the pension contributions. However, the treatment of the statutory redundancy was inconsistent with common mistakes either treating it as fully taxable or stating it was exempt. There was also varied treatment of the loan write off.

Easy marks were lost by candidates for generalising statements that Class 1 National Insurance was payable without specifying that this was both primary and secondary Class 1 National Insurance. If candidates ran out of time and were unable to finish off their calculations, they lost out on marks they may have otherwise obtained had they more specifically explained the National Insurance position earlier in their answer.

In the calculation of the Income Tax and National Insurance, the approach to the tax bands was varied with some correctly recognising the need to operate PAYE on a monthly basis whilst others incorrectly calculated it using the annual tax bands.

Taxation of Individuals

General Comments

Candidates' performance on this paper was mixed and they appeared to find questions 1 and 2 particularly challenging.

Question 1

This question tested candidates' ability to apply knowledge on EIS and SEIS reliefs (income and gains), with a property rich asset disposal and temporary non-residence. The standard of answers was very mixed with some correctly identifying and applying the rules to the scenario and others that failed to even mention EIS and SEIS relief despite their reference to it in the question.

Candidates must remember to apply the rules to the scenario. It was not uncommon for candidates to recite all they knew about a relief, in some instances for several pages, only to conclude that it did not apply, this approach did not gain many marks. Candidates should consider the situation presented in the exam question then plan their response before writing the answer.

A suitable structure which was followed by some candidates, was to consider for Brian, and then again for Lauren, whether they were eligible for income tax and or capital gains tax relief in respect of their investments.

The question also asked for supporting calculations which were not included in a surprisingly high proportion of answers. Candidate are reminded to re-read requirements to ensure that they have answered all the relevant parts of the question.

Question 2

This question focused on the sale of a residential property where the individual concerned had done their own research and concluded that the gain was entirely covered by Private Residence Relief (PRR). The question required candidates to consider the correct PRR position and advise the taxpayer on the next steps in relation to a discovery assessment raised by HMRC.

On the whole candidates were able to provide details of the available PRR but did not always provide enough detail, in particular in relation to the rules around ancillary buildings falling within the curtilage of the property and how to determine whether the land exceeding the permitted area is required for reasonable enjoyment of the property.

Candidates were able to offer some advice for the individual in terms of the next steps required following receipt of HMRC's letter.

Question 3

This question involved an Income Tax & National Insurance computation following the termination of a director, drawing on various elements of the syllabus.

The majority of candidates scored well on this question but there were two areas in candidates' answers where marks were regularly lost.

Firstly, there was a consistent misunderstanding of how s401 ITEPA 2003 operates. Most candidates stated that for payments to fall under s401 they must not be in return for services performed under an employment contract and that the first £30,000 of payments that fall under s401 would be exempt from tax. However, many candidates thought that only payments up to £30,000 could be taxed under s401 and added the excess to the PILON and restrictive covenant, which meant that income tax and national insurance liabilities were then calculated incorrectly, as the s401 excess should be taxed as an individual's "top slice" of income and is only subject to Class 1A national insurance.

A surprising number of candidates also thought that statutory redundancy payments are contractual and therefore taxable as earnings which is of course not the case.

The second area where candidates lost marks was on the National Insurance calculation, where many candidates produced a calculation without detailing how the total income subject to National Insurance had been arrived at. This meant no marks could be awarded for partially correct answers as it was not possible to identify what could be given credit.

Question 4

This question related to two individuals (an unmarried couple) who had moved to the UK in recent years with differing circumstances. It required candidates to consider the Income Tax and Capital Gains Tax implications for each individual as a result of the abolition of the Remittance Basis regime and the introduction of the Foreign Income and Gains ("FIG") regime and transitional reliefs.

Overall, this question was answered reasonably well, with the majority of candidates demonstrating a good understanding of the FIG regime and correctly applying the rules to the circumstances of each individual.

With regards to the transitional reliefs, most candidates were also able to discuss the Temporary Repatriation Facility and identify how and when it applied to each of the individuals' personal circumstances. However, the rebasing relief was overlooked by a large number of candidates. Unfortunately, many candidates discussed the Non-Resident Capital Gains Tax rebasing rules at length instead, including detailed information on the various calculation methods available to non-residents, which were not relevant here and will likely have wasted a considerable amount of time.

Question 5

This question required calculations with supporting explanations. Some candidates lost easy marks by failing to include supporting explanations. Performance was mixed with some scoring almost full marks and others unable to recall the relevant rules.

The initial preparation of the tax pool was not always done correctly; candidates are reminded to work through such questions in chronological order. Many candidates did not know how to deal with the sale of rights nil paid.

The second half of the question was generally performed well with candidates recognising that it would be beneficial to set aside the automatic takeover rules to benefit from BADR relief.

Most though not all candidates correctly dealt with the QCB received at the time of the takeover.

Question 6

This question required the candidates to calculate the Income Tax liability of a Scottish resident individual. The individual was in receipt of employment income, interest, and rental income, and had made some gift aid donations.

The majority of candidates dealt well with the Scottish tax rates, although there was some confusion over which rates to use for the savings income and unfortunately the starter rate was almost entirely overlooked.

The rental income included some holiday lets and there was some confusion over the impact of the end of the special tax rules for these properties. In particular, candidates were unsure of how the individual could split the rents from the properties with her husband. The expenses for these properties were dealt with well overall though. The individual had also granted a lease and a sizeable number of candidates were able to correctly calculate the taxable income arising as a result of the grant.

Human Capital Taxes

General Comments

There was a wide spread of marks on this paper. Some candidates achieved good passes but some were a significant way away from achieving the required marks to pass.

A general comment is that candidates must read the requirements carefully. Thus, where it specified that comment is required on specific taxes, there will be no marks available for comments on other taxes. Similarly, if discussion is required on specific transactions, there will not be marks for discussing other transactions.

Question 1

This question concerned a senior-level assignment to a UK company from a US group entity. The focus of the question was on the reliefs available to the employer through the payroll, in circumstances where the employee was a qualifying new resident and therefore be eligible for specific reliefs.

A common weakness was that candidates devoted unnecessary time to discussing the individual's personal tax obligations, rather than addressing the specific requirement to consider reliefs available to the employer. Similarly, a number of candidates spent time outlining the Statutory Residence Test, despite the residence position being clearly stated in the question.

The main technical requirement was to identify that Pink Ltd could obtain PAYE relief, subject to the application of the transitional rules. Whilst a broadly even split of candidates recognised that the 30% / £300,000 limit would not apply in this case, very few candidates went on to consider how the bonus payment could be treated under s690C, particularly in light of the fact that part of the bonus related to a period prior to 2025/26.

Most candidates correctly identified that social security contributions should continue to be due in the United States, including for the extended period. However, very few candidates commented on the implications of the employer having operated Class 1 NIC, or the corrective actions that may be required.

In relation to visa costs, a significant number of candidates incorrectly concluded that these were not taxable. This remains an area of challenge by HMRC. Only a small number of candidates identified that there is no specific exemption, and that such costs should therefore be treated as a taxable benefit.

<u>Question 2</u>

This question concerned a UK resident employee who was awarded an option with exercise subject to performance conditions. During a part of the exercise period, the employee is resident and working in Germany. On exercise, the employee acquires shares that are subject to a bad leaver restriction. She made an invalid section 431 election to disregard the leaver restriction. She was also awarded a put option enabling her to sell the shares at what turns out to be a favourable price. She later sells the shares as a good leaver at a price above their market value.

Whilst a number of candidates were very familiar with these issues and scored quite high marks, a larger number were unfamiliar with some of the concepts arising from the question. Some were confused as to:

(i) the difference between a share option and a share,

(ii) how the restricted securities regime applies to the acquisition of restricted shares where there is no valid section 431 election in place,

(iii) the different methods applied in reducing the liability of an internationally mobile employee to income tax and NICs on the acquisition of restricted securities,

(iv) how the restricted securities regime applies to the sale of restricted shares,

(v) how the employment-related securities regime applies to shares sold for more than their market value.

<u>Question 3</u>

This question was about benefits and expenses provided to international employees.

Most candidates were able to identify when Temporary Workplace Relief applied however surprisingly few were able to apply it to the relevant benefits and many discussed other methods of providing relief for travel costs despite these being exempt under TWR. Candidates didn’t often explain that the relief only extends to the employee and not their families. Candidates were able to earn marks for discussing the conditions of S371-373 for inbound assignees however some candidates did not discuss these reliefs at all.

<u>Question 4</u>

This question concerned an Irish resident employee seconded to the UK branch and then offered a full-time position at the UK company.

Most candidates were very familiar with the taxation of relocation expenses and some scored quite high marks. There was, however, confusion in some of the answers as to:

(i) the need to apply the SRT to 2024-25,

(ii) travel expenses outside the exemption,

(iii) employer compliance obligations in relation to reimbursed expenses that are taxable,

(iv) the difference between the gift of an asset to an employee and making the asset available to the employee for private use,

(v) how income tax and NICs apply to deferred remuneration in a cross-border context.

Question 5

This question concerned two employees of a group of companies who receive payments or other benefits from the parent company or from the founder of the parent company. It tested candidates' ability to distinguish payments of earnings from payments that are not earnings, though which might be liable to employment income tax under a different head. It also tested the meaning of "cost" in relation to in-house benefits.

A few candidates recognised that it would flout commercial common sense if a payment received in money or money's worth by the first employee compensating him for a loss allegedly caused by the employer constituted taxable earnings. Accordingly, they correctly concluded that the payment could not constitute earnings.

Nevertheless, the majority of candidates considered that, because the payment came from the employer company's parent to the employee, it had to constitute earnings, rather than compensation for a loss caused by alleged negligence.

The payment made to the second employee was more difficult, because it partly recognises past services provided in the employment. Nevertheless, few candidates realised that the fact that the payment recognised the employee's personal qualities, that the services in question occurred 12 years ago and that the employment ended 10 years ago made it unlikely that it constituted earnings.

Not many candidates realised that the fact that the payment was made by the founder meant that it was paid by a third party and was, therefore, potentially within the scope of the disguised remuneration regime.

Question 6

This question required candidates to explain the tax treatment of benefits and expenses provided to Scottish employees and to calculate the PSA settlement.

Candidates scored well on this question, particularly determining the taxability of the various benefits. They showed good understanding of which items can be included on the PSA and the reliefs available for trivial benefits and annual functions.

The most common error was not applying the 'annual' aspect of the relief for functions and therefore exempting the anniversary party.

The preparation of the PSA was done less successfully than the first part of the question with few candidates completing the calculations correctly.

Inheritance Tax, Trusts and Estates

General Comments

The paper produced very mixed results. It clearly distinguished between candidates who had studied well for the exam and were able to demonstrate a rounded tax understanding from those who had evidently failed to prepare sufficiently, displaying no more than a very basic grasp of the technical mainstream issues. Question 4 and parts of questions 1 and 5 were generally well performed whilst questions 2 and 6 were poorly dealt with and question 3 achieved very poor results.

In too many cases, candidates failed to address all parts of a question or provided information that was not required nor relevant to the question scenario - long paragraphs of general description score no marks unless they directly answer the question posed. This generally resulted in a loss of potentially easy marks and a waste of valuable time that combined, in some cases, meant the difference between a pass and a fail. Whilst not directly assessed, it is worth noting that the overall standard of spelling and grammar was very low reflecting a growing trend observed in the last few years.

Question 1

This was a question about the inheritance tax (IHT) implications of long term residence for George and his free estate and the trustees of his offshore trust. Performance was mixed producing either very good or very poor answers with little middle ground.

Most candidates were aware of the new long term UK residence rules and understood the issues. However, a number of candidates did not explain the concepts and neither considered nor addressed the implications for George remaining in the UK for an additional year. Key factors such as the tail length post leaving the UK were not explained or simply glossed over and as a consequence easy marks were lost.

The question prompted four IHT calculations to be performed but many candidates did not do any calculations or just sketched out one or two. Interestingly, most candidates were able to cite the correct IHT payment dates.

The question focused entirely on the IHT implications. However, many candidates wasted valuable time and effort explaining the capital gains tax (CGT) consequences of selling the property and calculating the potential CGT for which no marks were available.

Question 2

This question related to an offshore trust and was in two parts. Part one examined the post 5 April 2025 income tax and CGT rules for offshore trusts settled by a non UK domiciliary but now a long-term UK resident settlor whilst part 2 considered the tax treatment of onward capital distributions to a UK resident beneficiary. It had a mixed results but that reflects more the lack of understanding of offshore trusts in general rather than knowledge of the post 5 April 2025 position.

In part one, there was some confusion as to the settlor interested rules but generally many candidates displayed a good understanding of the CGT position. However, a few candidates failed to understand the differences between the income tax and CGT settlor interested rules. Significant points such as the settlor's right to reimbursement or assessment of the trust income/gains on the settlor from 6 April 2025 were not covered by most candidates.

The second half of the question related to a proposed capital distribution and seemed much better understood by most candidates than the first half of the question. Although some candidates were confused as to how the new rules and the existing stockpiled gains matching rules worked together most could explain the matching rules and ordering rules as well as perform the calculations so were able to pick up a good number of marks.

Question 3

This question related to the Income tax, CGT and IHT implications of creating a trust for a disabled person settled either by the disabled person (Hannah) or her father for Hannah's benefit. The subject matter clearly distinguished the wheat from the chaff with well-prepared candidates scoring highly whilst less prepared candidates struggled gaining very few marks indeed.

Disappointedly, some candidates did not identify that a disabled person's trust would be an appropriate vehicle or even available as an option. Wasted time was spent discussing the merits of a discretionary trust versus an interest in possession trust gaining little or no marks.

Well prepared candidates recognised and could discuss the differences in the tax treatment of the trust if settled by Hannah rather than Brian but for the majority this nuance was overlooked. Many candidates did not appreciate that Hannah needed to meet the requirements for a disabled person trust on its creation and if not only she could currently settle the trust. Most candidates did not explain in sufficient detail the requirements which must be met to qualify as a disabled person's trust nor seemed to understand the restriction of including non disabled persons as potential beneficiaries. This led a to a loss of valuable marks.

Many candidates were generally unclear on the tax operation of a disabled person trust and the impact/conditions of the vulnerable beneficiary elections for income tax and CGT elections with the answers provided and lacking in detail. There was general confusion of what would happen to the trust on Hannah's death.

Question 4

This question tested candidates' knowledge of Agricultural Property Relief (APR) and Business Property Relief (BPR) in the context of the reliefs being retested on death and the IHT payable on the death estate. Generally, candidates were able to pass this question with marks ranging from 2 to 18 marks.

The question asked candidates to calculate with explanations the IHT liability arising on death, noting that there was a full transferrable Nil Rate Band and Residence Nil Rate Band, with the deceased operating in a farm partnership and trading business during his lifetime. Many candidates added unnecessary comments and calculations on the deceased spouse estate which wasted time and gained no additional marks.

Many candidates in assessing the lifetime gifts corrected commented on the availability of APR and BPR on the partnership interest gifted to the deceased children, with many also commenting that where a gift qualifies for both APR and BPR, APR is used in priority. A surprising number of candidates, having stated the above, then proceeded to show in the calculation BPR instead of APR, losing marks. In contrast, candidates then correctly identified APR as being relivable against the partnership interest on the death estate. Candidates had no issue in identifying BPR availability on the company shares gift and very few had any issues in identifying wedding exemption on a gift to a child. Marks were lost for failing to specify that the Annual Exemption had been used. Candidates either answered poorly or answered very well on the reinvestment into BPR assets by Layla, with many correctly determining that Josh had APR withdrawn fully.

When considering the death estate, in addition to the point mentioned above, again candidates had no issues in identifying the availability of BPR on the company shares retained at death. Many candidates failed to determine that no BPR was available on the barns in the death estate, by virtue of the deceased not having control of the Ltd company at the time of his death.

A major area where candidates lost marks was in the restriction of the RNRB. While candidates were able to comment on the RNRB, where candidates then attempted to calculate the RNRB available, answers were very brief with very few being able to walk through the entire calculation. Some candidates however without any further calculation were able to recognise that the RNRB was restricted to the value of the farmhouse left after applying APR. There were many marks available for basic principles in this question, which candidates were able to pick up marks for, however there was also many candidates that could highlight what needed to be considered in the question but were unable to reflect this in the calculation accurately.

<u>Question 5</u>

The first part of this question was a simple estate income tax computation with R185 distributions, which required additional explanations from the candidates. The second part of the question required candidates to consider the practical reporting requirements of the estate, commenting on registration, CGT 60 day returns and payment and submission deadlines.

Candidates generally had little trouble in calculating the income tax position of the estate. The candidates that were able to pass the question well however were those that could compute the R185 figures. Many candidates failed to correctly recognise that the earlier distribution to Max was firstly non-savings income and secondly that this represented part of the 25% entitlement to the estate income, with many candidates deducting the earlier distribution, and then incorrectly splitting the balance between the four beneficiaries.

The second part of the question required candidates to consider the practical reporting requirements of the estate for income tax and CGT purposes. This was generally poorly answered with many candidates not recognising the need to register the estate for tax returns due to the estate being complex. Many candidates however correctly identified the need for a 60 day CGT return and the due date for payment and submission but struggled with the rest of the marks available here. Many candidates instead commented on the reporting requirements for the beneficiaries of the estates, which was unnecessary and meant time was wasted here.

<u>Question 6</u>

This question considered post-mortem relief for shares and properties for IHT purposes and the knock-on implications for CGT purposes. Performance was generally poor.

In respect of the IHT relief, many candidates could describe the mechanism for claiming relief to a degree, but then failed to compute this accurately, including cost of sales/costs of obtaining probate within the calculation, which meant marks were lost.

In respect of the CGT computations, marks were awarded for correctly following through with changing the probate value to the value calculated in part 1 for the affected assets. Many candidates did not do this and instead used the original probate values in the computation. Marks were also lost with candidates not considering SP 2/04 as an allowable cost or considering SP 2/04 but failing to consider that this should be applied as the higher of the amount calculated under SP 2/04 or the costs of obtaining probate provided in the question.

Many marks were also lost with candidates failing to calculate the CGT position on a tax year basis, instead looking at the gain position on an asset by asset basis without reaching a full conclusion as to the overall CGT position, after factoring in brought forward losses calculated for the earlier years. Candidates could generally spot that there were likely Principal Private Residence (PPR) implications on the sale of the Townhouse but did not specify that this was because Abbas' niece also lives in the property, continued to occupy the property after Abbas' death, and was entitled to more than 75% of the estate (being entitled to 100%). Generally, it felt that candidates had read the concepts at play here but could not put this into a working computation.

Taxation of Larger Companies & Groups

<u>General Comments</u>

Many candidates performed well on this paper resulting in a very high pass rate of 74%. They demonstrated a good general knowledge of the computational aspects of Corporation Tax, hence performance on questions 2 and 4 (capital allowances and computation respectively) was generally strong. Areas that proved more challenging were CIR calculations (question 1), capital gains roll-over relief (question 3) and deferred tax calculations (question 4). Some candidates lost marks through not mentioning obvious points (e.g. how CFC legislation works in question 5 and taxation of profits in question 4)

<u>Question 1</u>

This question concerned the corporate interest restriction rules. It was designed to reduce the range of the topic for candidates to cover by establishing a new group, stating that the group ratio was not beneficial and that the fixed ratio debt cap did not apply. There were three sections, administration, public infrastructure and a calculation of the interest restriction for the period.

The administrative section was answered adequately by most candidates although many included a significant amount of detail not relevant to the scenario in the question.

Most candidates answered the public infrastructure section quite well but again included a lot of irrelevant detail.

The calculation section was poorly answered by most candidates. Very few candidates made the correct adjustments to AMTIE and Tax EBITDA. Some candidates tried to calculate the group ratio despite being told in the question that it was not beneficial. Also, there was no information in the question that would enable them to do so. A surprising number of candidates adjusted the Tax EBITDA figure for the disallowed interest and QIC position.

<u>Question 2</u>

This question required candidates to calculate the capital allowances and structural and building allowances for an account period. There were a number of additions, and disposals of plant together with the acquisitions of buildings which impacted on both Structural and building allowance and on the capital allowance computation.

The question was in general answered very well with most candidates achieving high marks. The capital allowances section was worked somewhat better than the structural and buildings allowances section but even in that part many candidates scored full marks.

The common areas where mistakes were made were the hire purchase of the vans in the capital allowances section and the office building in the Structural and building allowance section. Some candidates were not aware that the capital element of the hire purchase agreement could all be added to the pool in the period. For the office some candidates did not know that only the expenditure on the alterations attracted structural and building allowance.

<u>Question 3</u>

This question required candidates to calculate a number of gains chargeable to Corporation Tax and also consider how to reduce the charge in the period by the use of reliefs. The properties disposed of were a freehold factory, a leased office and plant and machinery. Expenditure was incurred on a new office building during the period.

The calculation of the gain on the freehold factory was dealt with well by most candidates apart from some who included the expenditure on the demolished workshop.

The leased office proved more challenging as it required the use of the lease tables to calculate the cost, but many candidates dealt with this very well.

The plant and machinery were also dealt with well although many candidates spent unnecessary time explaining the capital allowance position which was not a requirement of the question.

The relief section of the question was not dealt with very well by most candidates. Many wasted time discussing holdover relief which was not relevant to the question. A surprising number of candidates stated the correct position that proceeds not fully reinvested would result in a gain chargeable in the period but then based their calculations on the gains not the proceeds.

<u>Question 4</u>

This question set out details of the income and expenditure of two group companies and asked for the calculation of the corporation tax payable on the basis that claims would be made with the objective of reducing long term costs.

Most candidates performed well on the basic computational provisions, although many candidates referred to the employee related limits when considering the corporation tax deductibility of the staff entertaining costs.

The basic capital allowances calculations were performed well with good explanations on the treatment of instalment payments and the benefit of claiming Annual Investment Allowance. However, the interaction with the lease disposal was not dealt with so well with a number of candidates claiming allowances on fixtures value and many failing to include these proceeds in the pool. Candidates generally recognised that the accounting profit should not form part of the taxable result, but many added this rather than deducting it. Whilst many candidates prepared a good chargeable gain calculation in connection with the disposal of the lease, candidates lost marks by omitting the deduction of the legal fees or failing to apply the part disposal formula correctly. It was disappointing to note that some candidates thought that the indexation could increase the allowable loss or considered that a chargeable loss could be offset against taxable profits.

The investment company profile appeared to cause some problems with a number of candidates including rental profits as additional income whilst offsetting a loss that hadn't been adjusted for these profits.

The better candidates considered the potential restriction on losses and referred to the deductions allowance of £5million, but many indicated that this did not apply rather than correctly explaining that, whilst there would not be any restriction on the use of the losses, being below £5million, the nomination statement would still be required.

The best candidates appreciated that the best opportunity to minimise overall tax costs for the group came from claiming group relief to ensure tax was only paid at the 19% rate giving an overall saving for the group whilst other candidates suggested that not offsetting the losses or disclaiming capital allowances in the period or would reduce tax in the future – whilst accurate not a commercial approach as no net saving. It is also important to understand that whilst the marginal rate of tax between the thresholds is 26.5%, this is not the rate that should be applied in full to the profits when calculating the tax liability.

Candidates should take care in calculations to consistently calculate in £ or £000 as this distorted calculations significantly for candidates who confused these.

<u>Question 5</u>

This question asked candidates to consider the tax consequences of a UK based business taking on an overseas construction contract.

A surprising number of candidates included a detailed discussion of the residency and possible migration of the UK company rather than considering whether the contract would give rise to an overseas permanent establishment and comparing this to operation through a subsidiary.

Given the limited information available, the best candidates gave an overview of what gives rise to a permanent establishment and considered how this might apply to a construction contract as well as considering the operation of a subsidiary and if this could be subject to UK tax, either through central management and control or the CFC rules.

Most candidates identified the key factors that would give rise to a permanent establishment and mentioned the possibility of the exemption with the better candidates appreciating the impact of the overseas tax rate on the appropriate decision.

Although the question specifically stated that it was not required to consider the transfer pricing a number of candidates did so, reducing the time that they had available to focus on other points.

Question 6

The question required candidates to explain the deferred tax position of a newly incorporated company based on the Corporation Tax computation provided and explain any further information that would be required.

The quality of the answers ranged significantly with the better candidates identify that temporary differences arose in connection with capital allowances, unpaid pension and the loss carried forward, although many failed to identify the possibility of an asset being recognised in connection with the loss or determined the temporary difference as the difference between the accounting and tax loss. A high number of candidates commented on needing details about brought forward balances despite being advised that this was a newly incorporated company. There was also significant confusion about whether differences gave rise to assets and liabilities and how the recognition criteria applied o these.

Few candidates failed to state that provision of liabilities would always be required in this situation but that it is appropriate to recognise an asset in respect of losses to offset a liability in connection with accelerated capital allowances.

Domestic Indirect Taxation May 2026

General

The performance on this paper was mixed. Worryingly, a number of candidates either do not understand some of the basic principles of VAT or otherwise fail to apply those principles to particular scenarios. Others simply write all they know on a particular area in the vague hope that some of it will stick and gain credit. Not only are they wasting time with this approach, but they are also demonstrating that they are unable to address the specifics of a client's issues.

Question 1

This question asked candidates to explain the implications of two acquisition routes available to a charitable trust regarding a new performing arts theatre.

Well prepared candidates were able to compare and contrast the VAT implications of the two options being explored by the trust and were therefore also able to offer up well based recommendations.

Unfortunately, a number of candidates wasted substantial time considering application of the *Wakefield College v HMRC* [2018] judgement and TOGC provisions to the scenario at hand. Whilst not irrelevant, it was clear from the information provided in the question that the trust was proposing to carry on a business activity despite its charitable status, and it was also clear that the TOGC provisions would not apply.

Many candidates also incorrectly considered the application of *Halifax plc v Commissioners of Customs & Excise* Case C-255/02, [2006].

Question 2

This question tested candidates' understanding of single / multiple supply rules and how taxpayers should correct historical VAT errors.

Generally, this question was answered well. It was pleasing to see that most candidates were able to correctly apply the principles established in *Card Protection Plan Ltd v C&E Commrs* Case C-349/96 [1999] and *Levob Verzekeringen BV v Staatssecretaris van Financiën* Case C-41/04 [2005] to the bolt on products provided by Grimsby University Press.

Many candidates also correctly identified that the e-readers provided to disabled students would be zero rated on the basis that software had been pre-installed to suit the user's specific needs.

The best performing candidates were able to:

1. successfully calculate the total quantum of the VAT error for each bolt by filtering out both historical e-reader sales to disabled students and out of time periods; and
2. identify that the advertising services provided to the charity were 'targeted' and therefore should have been standard rated.

Most candidates were also able to successfully outline, with application to the information provided, how Grimsby University Press could mitigate the potential application of penalties by HMRC.

<u>Question 3</u>

Question 3 tested the VAT implications of various employee benefits / incentives being entertained by a partially exempt law firm. This question was answered quite poorly despite being one of the easiest on the paper, incorporating some core principles.

Most candidates struggled with this question. It was surprising to see that many candidates failed to apply the findings in *Astra Zeneca UK Ltd v HMRC* Case C-40/09 [2010] to the salary sacrifice for employee car lease payments. A large portion of candidates also incorrectly argued that the interest free loan would be an exempt supply for VAT purposes.

Many candidates did however attempt to apply the principles established in *Commissioners of Customs & Excise v Redrow Group plc* [1999] to the EV charging hub arrangements but many did not subsequently offer a well-based recommendation for which option the firm should proceed with.

Some candidates were able to correctly determine which costs relating to the employee relocation could be eligible for VAT recovery. However, few reflected on the interaction between those costs and the firms' partial exemption position. Candidates also struggled with the VAT implications of the proposed gym membership arrangements and many surprisingly considered the application of the gift of goods rules.

<u>Question 4</u>

This question asked candidates to consider the IPT implications of a university providing travel insurance to its staff and students and it offered two different types of policies.

This question was very well answered by the vast majority of students. Comprehensive answers were provided and outlined the difference in rules for travel insurance policies for less than 4 months and those over 4 months.

Most candidates recognised that option 2 was better as it meant that TIL would not have to register for IPT as it would not be a taxable intermediary in this option.

Overall, candidates scored very strongly in this question.

Question 5

This question considered various supplies made by a cycling business and explored areas such as retail, rental income, land related supplies and TOMS.

The more prepared candidates performed strongly in this question however many missed the difference between the supply of the velodrome to the school and adult cycling club (note 16 and item 1(m) Group 1 Schedule 9 VATA 1994) and came to the incorrect conclusions on whether the supply would be taxable or exempt.

Most candidates recognised the requirement of TOMS for the cycling trip and were able to explain in good detail in-house supplies, how the margin should be calculated and that no input tax should be claimed on margin supplies.

Some candidates focused too much on adjustments for VAT and wasted time detailing this for every item identified as being treated incorrectly.

Question 6

This question focused mainly on the SDLT implications of a property with surrounding land being purchased and developed.

Answers to this question were mixed but well prepared candidates were able to work through the chargeable consideration taking into account the land value, the access road works and the uncertain consideration.

Candidates debated whether the residential or non-residential rates would apply and had mixed views on this. Credit was given for a reasonable argument either way.

Most candidates correctly identified that the CEO would be subject to higher rates of SDLT as he was non-resident and the well-prepared candidates were able to advise that he would apply for a refund if he became a resident and can apply for the refund within 2 years.

Candidates lost some basic marks on the VAT element of the question.

Cross Border and Environmental Taxes

General

Most questions require the candidate to “explain” rather than just state an answer. For example, candidates are missing marks by simply stating that VAT is accounted for under the reverse charge without explaining why.

Candidates are also wasting time either by including irrelevant material or simply restating the question without drawing conclusions from it. Whist the facts in the question should be used to support your analysis, there is no need to repeat the question.

Question 1

This question tested the candidates understanding of establishment rules in the context of a partly exempt gambling group. It also tested candidates understanding of the reverse charge provisions and their interaction with registration requirements.

Most candidates were strong on the principles of business and fixed establishments and provided well-reasoned answers. However, some candidates missed out on marks by jumping to conclusions on establishments without showing their reasons. In general, there was also limited citation of relevant case law on establishments.

Whilst a lot of candidates identified that ZBetUK was liable to register for VAT by virtue of its reverse charge turnover, a surprising number of candidates missed this point or became confused about which entity was required to account for VAT.

It was pleasing to see that many candidates recognised the registration points raised by Betbarb's UK fixed establishment and were able to discuss which establishment was most directly concerned with the supplied made by Betbarb.

Few candidates went onto identify VAT grouping as a potential option for the corporate group but those that did provided some well-reasoned discussion and generally scored well.

Many candidates did not seem to recognise that bookmaking services were likely to be VAT exempt and a significant number of candidates confused bookmaking and bookkeeping services.

A significant number of candidates wasted time reiterating facts from the scenario rather than applying their knowledge.

Question 2

This question tested candidates understanding of disclosed and undisclosed agency in the context of international transactions. It also tested a number of exceptions to the general rules for the place of supply of services and candidates understanding of the Tour Operator's Margin Scheme (TOMS).

A good number of candidates answered this question well. Those candidates who scored best discussed and analysed the arrangements to come to a conclusion about whether Eumove was acting as disclosed or undisclosed agent or principal in relation to the various transactions. They also discussed TOMS and elaborated on the consequences of TOMS for Eumove.

A significant number of candidates focused only on the accommodation and did not mention the removals services and thereby missed out on some relatively straightforward marks.

A minority of candidates struggled to identify any of the key issues in this scenario and therefore did not score highly.

Question 3

This question tested candidates understanding of Aggregates Levy.

Candidates who worked through the scenario logically often scored well on this question, even if they did not know all of the technical detail.

There was generally a good understanding of the implications of taking aggregate to the Republic of Ireland and of the originating site. Most candidates also identified that moving aggregate to a connected site was not commercial exploitation.

A lot of candidates also successfully identified that commercial exploitation could include using the aggregate for construction purposes such as making roads although fewer candidates identified the exception for the purpose of an agricultural or forestry business at any site owned by the operator.

Many candidates picked up useful marks discussing the industrial processes for which credit is available.

<u>Question 4</u>

This question tested candidates understanding of Landfill Tax and information areas. It also tested candidates understanding of the VAT implications of moving goods between the UK, Northern Ireland and the Republic of Ireland.

Generally, most candidates scored well on the discussion of Landfill Tax. They identified that landfill tax was only due when the clothing is disposed of as waste and they typically identified that the disposal would be standard-rated (although some candidates focused too much on the liability given the number of marks available). The majority of candidates identified that an Information Area could be relevant, and marks were awarded for relevant discussion.

The answers on the VAT element of the question were more mixed. Many candidates thought that the movement of goods from Northern Ireland to the Republic of Ireland was an export and few identified that this could be an intracommunity temporary movement of own goods. Some also struggled with the treatment of own goods moving from Great Britain to Northern Ireland. However, most candidates identified that there was a supply of services from Ireland to Northern Ireland which would be subject to the reverse charge.

<u>Question 5</u>

This question tested the candidates understanding of the rules around processing within Customs Warehousing and amendment of declarations.

Candidates wasted time explaining how a business which is already operating a Customs Warehouse could apply to operate a Customs Warehouse (CW) and the general requirements once authorised. The question asked them to focus in on current and planned activities and what is allowed within Customs Warehousing and so identify that Inward Processing (IP) would be useful in addition to Customs Warehousing.

Most candidates identified that IP would be beneficial but again didn't tailor the advice to a business that was already operating a CW, e.g. advising the business that they would have to apply for an EORI if it didn't have one. It is impossible to operate a Customs Warehouse without an EORI.

A lot of candidates said cars could be displayed to the public or taken for test drives under temporary admission; this is incorrect. Similarly candidates said IP equivalence would allow Newcarimp to amend the value of one car to reflect a credit note given for an earlier import, this is incorrect.

<u>Question 6</u>

This tested the candidates understanding of Customs valuation and particularly the rules around assists.

Some candidates incorrectly thought that assists meant that Method 1 could not be used and so looked at other valuation Methods but none of these really developed their thinking.

A lot of candidates wasted time having explained that Customs valuation methods are hierarchical, and that Method 1 was appropriate by then spending time explaining the other five methods that could not apply in this case. It would be right to explain Methods 1-4 if advising that Method 5 was appropriate.
Even those candidates who identified that tooling may declared on the first import or apportioned across the expected life of the tool only carried out one Customs valuation calculation and few discussed the merits of the two options. The general standard of calculations was poor with many candidates having identified the correct elements but were unable to apportion correctly and unable to deal with freight charges for transport to the UK and within the UK correctly.

APPLICATION & PROFESSIONAL SKILLS

Taxation of Owner Managed Businesses

General comments

The question required candidates to consider the forthcoming incorporation of a trading business. The three main issues were how to undertake the incorporation, the timing of important capital expenditure (namely whether it should be pre or post-incorporation), and how to bring the proprietor's daughter into the business in order to provide her with a small income. Credit was also available for a number of periphery matters, such as VAT and IHT implications.

There were a large number of candidates that included a detailed discussion on suggested profit extraction for James, which had already been discussed at the meeting with illustrative calculations noted in the meeting note. As such, it was largely superfluous to expand further as the purpose was to illustrate the potential tax savings compared to a sole trader due to the restricted extraction. It was, however, pleasing to see some candidates noting that an adjustment to the extraction strategy would be required if rent and/or interest were used as an additional way of taking funds from the company. There were a small number of candidates that wasted time discussing the benefits of incorporation and making a recommendation to incorporate the sole trade – this had already been decided at the previous meeting, and the focus of the question was on the details of how and when, not if.

On a similar note, some candidates became fixated on trying to persuade James out of retaining ownership of the trading premises, or that he hadn't made his mind up yet, despite the email from him stating "I have decided this would be easier if I keep the building outside the company" – this was a clear indication to candidates that the decision had already been taken. While it was then perfectly fine to discuss, say, incorporation relief, the answer should be based on the assumption that the property would not be transferred.

Overall, some candidates had focused heavily on incorporation from the pre-seen material and had perhaps come to the exam with preconceived notions of what the question would be covering. It is important to reiterate that the pre-seen information is there to provide background information that will be useful when answering the question.

Structure

Most candidates correctly structured the answer as a report, rather than a letter or email. A small number of answers were excessive in word count, largely due to covering irrelevant material, e.g. the pros and cons of incorporating, profit extraction for James in detail, etc.

A handful of candidates did not make recommendations in the main body of the report, instead including them in the executive summary. There were a small number of answers that contained extremely long meandering paragraphs with no breaks.

It is important to remember that the scenario is based on giving a client advice, so it needs to be set out in a way that is easy to follow, without being overly technical – clients are not interested in legislative references, for example.

Identification and application

Method of incorporation and CGT reliefs

Most candidates correctly identified and compared incorporation relief and gift relief, and that the gain on the goodwill would lead to a CGT charge in the region of £70,000. Surprisingly few candidates went into much detail about the possibility of selling the assets to the company for a large outstanding director's loan account balance. While some candidates did discuss the possibility, it was often dismissed due to the client's wish for no unexpected outgoings. While this was certainly an important point (with credit given for noting it), it was too often then overlooked that the refund potential terminal loss relief claim would more than cover the CGT charge, meaning the loan option would be neutral from a cashflow perspective.

Capital allowances and timing of new purchases

Most candidates correctly identified that there are no WDAs or AIA in the period of cessation, and that the existing capital assets would, by default, be transferred at the lower of cost and market value. A pleasingly high number also noted the possibility of electing to transfer at TWDV or for a specified amount of consideration, with most advising to opt for £1 to create a balancing allowance. Some chose a consideration bringing the final year profits down to the level of the personal allowance which demonstrated good practical thinking.

However, when it came to the purchase of the new machines, some candidates missed the opportunity to apply the same logic to augment the trading loss. Some simply said the assets would go in and out of the sole trade at cost due to the short time frame, others advised on a transfer at TWDV to avoid any balancing charge. As a result, some candidates missed the opportunity to claim terminal loss relief to obtain the Income Tax refund.

Some candidates advised James to wait until after incorporating to purchase the machinery to avoid personal allowance wastage, and so that the company would be able to claim the AIA, saving around £87,000 in Corporation Tax over the next two years. While this was often at least weighed against the Income Tax refund, it often ignored the potential of using the excess loss against income from the company or offsetting the capital gain on incorporation, both of which meant the loss in the sole trade is more valuable. A key overarching concern for James was cashflow, which was often overlooked when considering this.

Remuneration for Danielle

Most candidates compared the position with Danielle as a part-time employee with being a shareholder. There were actually four potential options: employee, director, shareholder or director-shareholder. Most candidates correctly identified a salary as being the most efficient option due to Corporation Tax relief compared to a dividend at the desired level of payment. Only a small number of candidates considered that making her a director would help her feel more involved with the company business, especially with things like networking and attending meetings are concerned – these are things that are key to the day to day running of a business, which is far more of interest to the board of directors than a role as a shareholder.

Plenty of candidates discussed using alphabet shares to chime with James' wish to retain 100% of the voting rights and credit was give accordingly.

The weaker answers discussed paying Danielle a salary with dividends to take her to £50,270 to use her basic rate band with no justification. It is highly unlikely that someone in James' position would want to exhaust his company's working capital to provide such a high level of income to Danielle while at university. It is possible that higher amounts might be paid to cover tuition fees etc, but this cannot be assumed from the provided information, so candidates would at least need to explain why they are recommending a higher amount than the client has specified. None did.

Relevant Advice and Substantiated Recommendations

Timing of the capital expenditure

The strongest answers made the case for purchasing the new machines in the sole trade, selling them to the company for £1, and then discussed using the loss to recoup the income tax and Class 4 National Insurance for the previous years.

Method of incorporation

The vast majority of candidates advised that a gift relief election be made to facilitate the retention of the building. Most marks lost in this area were due to not at least considering the option of a sale for an outstanding DLA balance and/or ignoring James' decision to retain the building and advising him to utilise incorporation relief.

Remuneration for Danielle

This matter was generally well answered, with recommendations to pay Danielle a small salary rather than dividends. A small number of candidates incorrectly inferred secondary Class 1 National Insurance would be payable if the salary exceeded £5,000, despite Danielle being under 21 and the employment allowance being available in any case.

Taxation of Individuals

General Comments

This question required the candidate to deal with a client believing they have organised the perfect solution to a change in their circumstance. There were several, potentially conflicting, elements interacting with each other. Only on some elements, e.g. whether to buy in England or Scotland, was there clearly one better answer. Other elements tested the candidate's ability to think through their arguments.

Candidates did well in the Identification & Application sections but many seemed to struggle with the Advice & Recommendations. There were several areas where advice was required where questions were not directly raised by the client which candidates didn't pick up and advise upon. Candidates should challenge clients where they have made errors in their plans but at the same time offer positive alternatives or assist the client where to get necessary information.

Structure

Candidates are reminded that the executive summary should be only a summary of the main points and overall recommendations. It should not repeat all the detailed points of the report nor be as long as the main body of the report itself.

Identification and Application

Residence and applicable tax rates

Candidates generally did very well at working out that living in Scotland would cause higher rates of income tax and stamp duty.

New job offers and leaving the partnership

Realising the English partnership was a deemed employment situation was a key factor. However, candidates could still do well if they dealt with the pension contributions and benefits in kinds in detail. There was some overall lack of understanding of how salary sacrificed pensions actually work.

Property taxes

This was probably the area of most confusion for candidates. Candidates spent a lot time explaining the mechanics of calculating the rental profit, without focussing on the key points that would matter to Alan. It required candidates to balance the CGT aspects, the tax reliefs and elections available, the loss of personal allowance and the effect on SDLT/LBTT.

Cash flow concerns

This was another area of multiple elements. Most candidates recognised the ISA restrictions and extra SDLT, but they also needed to think about the timing of the partnership profits and the tax payments.

<u>Relevant Advice and Substantiated Recommendations</u>

Which cottage to buy

Candidates did well with this element but it was a simple and largely clear choice to make.

Which job offer to accept

There were no right or wrong answers to this section, so candidates' reasoning for their recommendations and weighing up of their arguments were very important. Alan also needed clear advice on how pension funding worked and what to do with the extra £5k on offer. Candidates generally did well on this.

However, this was also a section where advising Alan where to follow up with third parties counted: an IFA about pension planning, his solicitor and the English partnership about the deemed employment implications, the Scottish employer about the benefits on offer.

Rental Income and Property

This was the main section where candidates were expected to challenge Alan's planning and put forward suggestions. Alan needed to be fully advised so he could seek specific additional information to finalise his decisions. Alan was renting out Oxford to cover the costs of retaining it. However, the effective tax rate of 60% and the restriction of mortgage cost deductions, meant he would be losing money after tax. Retaining Oxford also impacted the stamp taxes and PRR relief. Candidates did not discuss this thoroughly enough. They should have advised Alan to re-examine his decisions and get more advice on the property investments, how he could get more rent or reduce his mortgage, etc.

Cash flow

Candidates did not always think through their alternatives far enough. Alan was already regularly using up his ISA allowance, so had no scope to return the withdrawn amounts unless it was a flexible ISA. A good suggestion by candidates was to use a junior ISA.

Many candidates advised making very large pension contributions to counter the PA tapering, despite Alan already having cash flow problems.

Simpler solutions were available, however, candidates needed to challenge Alan's thinking. Could he delay the purchase of the cottage until the receipt of payments out of the Paws & Claws partnership? Could he rent rather than buy the cottage, thus avoiding extracting funds from his tax-free, growth-creating ISA to put into a property which was not going to generate any profit? This was another opportunity missed to think wider and recommend further professional advice.

Inheritance Tax, Trusts & Estates

<u>General Comments</u>

The question required the preparation of a report advising the client, Jean Macfarlane, on her estate-planning position, addressing several specific issues concerning her children, Emma and James. Jean had outlined proposed next steps in light of her poor health and her expectation that she was unlikely to live for more than two years.

The scenario contained three main elements. First, candidates were asked to consider Jean's intention to move in with one of her children. Second, they were required to advise on the capital tax consequences of gifting her property to James. Finally, the question asked for a review of Jean's Will and any appropriate recommendations for amendment.

When reviewing Jean's living arrangements and her previous lifetime gifts, it was essential for candidates to recognise the relevance of the pre-owned asset tax (POAT), and most were able to do so. Stronger candidates went further, explaining why Jean living with Emma would trigger POAT, whereas living with James would not produce the same outcome. A smaller number of candidates also fully explored the inheritance tax (IHT) implications of both past and proposed lifetime gifts, including how any resulting tax exposure for Emma and James could be managed.

The most substantial element of the question required candidates to analyse the IHT and capital gains tax (CGT) consequences of Jean gifting her property, 3A Turney Road (a trading property used by a company under her control) to James. Given Jean's two-year life expectancy, the tax impact of making a lifetime transfer was significantly more adverse, particularly because of the loss of the CGT uplift on death and the potential clawback of business property relief (BPR) for IHT purposes.

A surprisingly large proportion of candidates struggled to identify the full IHT implications of the proposed gift, although many still reached the correct overall conclusion (that retaining the property until death would be preferable) due to the CGT uplift available.

Finally, the question required candidates to review Jean's Will, which left her residuary estate to her grandchildren in equal shares, contingent on each reaching the age of 25. This required commentary on the tax treatment of the trusts created by the Will and an evaluation of alternative trust structures, taking into account Jean's objective of restricting access to capital until at least age 25. This part of the question tested candidates' understanding of the income tax, IHT and CGT implications of relevant property trusts compared with qualifying interest in possession (IIP) trusts and advise on the best option to meet the client's particular objectives. Candidates also needed to identify that, without amendments to the Will to ensure a closely inherited gift, Jean's estate would be unable to claim the residence nil rate band (RNRB) or the transferable RNRB.

<u>Structure</u>

All candidates adopted an appropriate report structure. Every script included an introduction and an executive summary, and most also provided an overview of Jean's IHT exposure, supported by relevant calculations in the appendices. A small number of answers contained notable numbers of spelling errors. Overall, there was little irrelevant content, with most candidates remaining focused on the specific proposals under consideration.

<u>Identification and Application</u>

Identify overall IHT exposure of Jean's estate and relevant reliefs.

This section was handled reasonably well by most candidates, with many correctly calculating the 'worst-case' IHT liability on the assumption that no planning steps were taken. However, a minority failed to identify the availability of downsizing relief, either asserting that Jean would be unable to claim the RNRB because she no longer owned a qualifying residence or omitting any reference to the RNRB altogether.

Almost all candidates correctly advised on the availability of 50% BPR for 3A Turney Road and 100% BPR for Jean's shares in Castle Galleries Ltd, although the clarity and accuracy of explanations varied significantly. Many candidates noted that the PET made to Emma was within the last seven years and therefore could still become chargeable. One or two candidates went further and discussed how Jean's Will could be structured to address any IHT liability arising from any failed PETs.

Identify that living with Emma will attract a POAT charge and give an estimate of the liability to tax based on the information provided.

Most candidates performed well on this part of the question and correctly identified that living with Emma would give rise to a POAT charge. However, some candidates struggled with the calculation, with a significant number failing to apportion the annual charge to reflect Jean's one-third contribution to the original purchase price. Most were able to explain the income tax reporting requirements for Jean.

Identify that living with James is unlikely to attract a POAT charge as the PET should not qualify as an acquisition of land for the purposes of the POAT rules.

This part of the question caused noticeably more difficulty for candidates. Many incorrectly concluded that the POAT or GROB rules would apply in relation to James, often without distinguishing between the treatment of a gift of cash used to acquire property and a direct gift of land.

Only a couple of candidates correctly explained that the cash gift made to James should not be treated as an acquisition of land for POAT purposes although most discussed the IHT implications of the PET in reasonable detail.

Identify that BPR is likely to be available in relation to 3A Turney Road at a rate of 50%. Identify the IHT and CGT implications of a gift of 3A Turney Road to James including the potential for clawback of BPR in the event of Jean's death within seven years. Identify the CGT and IHT implications of retaining the property until death and gifting the property to James by Will.

All candidates correctly identified that 3A Turney Road would attract 50% BPR, and almost all recognised that a lifetime transfer to James would constitute a PET, with BPR being reassessed on Jean's death. A smaller number went further and correctly noted that BPR would be clawed back if Jean died within seven years, as James would not be a controlling shareholder of Castle Galleries Ltd. However, many candidates either stated that BPR would apply only if James retained the property until Jean's death or failed to address the clawback provisions at all.

Most candidates accurately calculated the CGT implications of a lifetime gift, although a significant number, including some otherwise strong candidates, incorrectly concluded that Jean would qualify for business asset disposal relief (BADR). These answers treated the transfer as a disposal of an asset used in Jean's personal trading company, overlooking the fact that the gift did not constitute an associated disposal nor a disposal on cessation of trade. As a result, they applied a 14% CGT rate and, in some cases, recommended a lifetime instead of a death transfer on that basis.

The majority of candidates correctly identified that retaining the property until death would be more advantageous from a CGT perspective, particularly given James's intention to sell the property in the future. Many recognised that a holdover claim would disadvantage James by reducing his base cost, whereas a transfer on death would secure a full CGT uplift, eliminating the latent gain.

Explain the tax implications of the Will Trusts for Jean's grandchildren. Identify that the age-contingent gifts will not enable Jean's estate to benefit from the residence nil rate band

Most candidates correctly identified that the trusts created over the residuary estate would fall within the relevant property regime, and many demonstrated a sound understanding of the associated IHT consequences. Candidates generally recognised that the age-contingent gifts (with capital only vesting at age 25) meant that the grandchildren would not inherit a qualifying IIP, and therefore the gifts would not qualify as "closely inherited" for the purposes of the RNRB.

Identify alternative tax efficient Will structures that would enable Jean's overall aims to be achieved.

Most candidates provided a reasonable discussion of the tax implications of relevant property trusts and demonstrated a good understanding of the treatment of qualifying IIP trusts. However, very few distinguished between Jean's existing age-contingent trusts (which guaranteed equal capital shares at age 25) and a more flexible discretionary trust structure. Although both would fall within the relevant property regime, a discretionary trust would give the trustees wider powers over the timing and allocation of capital distributions, potentially offering greater scope to meet Jean's objectives while managing tax exposures.

Overall, responses to this section were mixed. While many candidates showed a solid grasp of the broad trust categories, fewer explored the comparative income tax, CGT and IHT consequences of the available options in sufficient detail. It is possible that some candidates ran short of time, as explanations of the alternative structures and their tax implications were often brief or incomplete.

<u>Relevant Advice and Substantiated Recommendations</u>

Advice and recommendations on whether it is preferable to live with Emma or James from a tax perspective.

Almost all candidates provided a clear recommendation as to whether Jean should live with Emma or James, and most supported their conclusions with appropriate analysis of the tax implications for both Jean and her children. The majority recommended that Jean live with James, primarily due to correctly identifying the POAT consequences in relation to Emma's property.

However, several recommendations were inconsistent with the client's stated wishes. A number of candidates suggested that Jean should pay a full market rent to avoid POAT, despite the question making it clear that this was not an option. Other candidates proposed postponing the cash gift to James until death, or, having incorrectly concluded that POAT applied to James's situation, recommended electing into the GROB regime on the £30,000 gift. Some answers also suggested delaying Jean's move to avoid POAT, again contrary to the intentions expressed in Jean's email.

The strongest answers went beyond the immediate POAT considerations and addressed the wider estate planning context. A small number of candidates specifically advised on potential amendments to Jean's Will, including the option to make gifts free of or subject to IHT, and discussed how lifetime tax could be settled from the estate to maintain fairness between Emma and James. These responses demonstrated a fuller understanding of Jean's objectives and the relationship between lifetime planning and testamentary provisions.

Advice and recommendations on how to structure the gift of 3A Turney Road to James.

All candidates provided a clear recommendation on whether 3A Turney Road should be gifted during Jean's lifetime or by Will on death, with most placing greatest emphasis on the CGT implications. Even where errors arose in the analysis of BPR and potential IHT clawback, stronger candidates were still able to demonstrate an understanding of the broader IHT consequences and incorporate these into a balanced and well-reasoned recommendation. Many gave appropriate advice regarding instructing a solicitor to amend Jean's Will if a death transfer was recommended.

Credit was awarded to candidates who identified that a gift of 3A Turney Road to James on death could also enable Jean's estate to benefit from the RNRB and the transferable RNRB, as sufficient value would pass to a qualifying beneficiary to secure RNRB downsizing relief.

Advice on the tax effectiveness of Jean's Will and recommendations in relation to retaining the current structure or amending the residuary gifts.

Nearly all candidates provided a clear recommendation in this part of the question. Most advised that Jean's Will should be amended to give the grandchildren an immediate entitlement to income, rather than the current age-contingent gifts with discretion to accumulate income. Candidates recognised that this approach would simplify both the income tax and IHT treatment, allow the estate to benefit from the RNRB, and still meet Jean's objective of preserving the underlying capital until the grandchildren reach age 25. Some candidates concluded that the existing arrangement continued to meet Jean's aims, and marks were awarded where the available options had been properly explored and the tax implications explained.

Taxation of Larger Companies and Groups

General comments

The scenario was a listed plc which sought tax advice on whether to build a new factory in the UK or in Arcadia (a fictitious country) to support a new business that will have a 10-year lifespan. Candidates were required to recommend which location to choose and to advise on how an investment in Arcadia would be structured to optimise the tax position. Aspects of the Arcadia tax regime were described in the question to enable a comparison with the UK tax regime to be made. Candidates were required to write a report, for the Board of the client, recommending how to proceed in relation to the expansion into Arcadia.

The six "identification and application" issues that candidates were expected to address were not specifically set out in the question. Of the three areas of "relevant advice and substantiated recommendations" to be made, two were made obvious in the question (where to locate the factory, and how to fund Arcadia) while the third (whether to buy a loss-making company in Arcadia) was implied by specific reference to the availability of a loss-making company.

Most candidates correctly identified the required issues and advice areas. However, many candidates wasted time discussing largely irrelevant topics, for example, how to structure inter-company equity and loans within the UK (not requested). Some also discussed R&D and patent box when the questions specifically stated there was no need for further product development.

Some candidates made obvious calculation areas, such as multiplying by 10 incorrectly, deducting rather than adding back depreciation, and incorrect computation of grants at 20%, while other candidates failed to provide relevant calculations.

Structure

Nearly all candidates produced an answer that complied with the requirement to produce a report in an appropriate format, and most answers were well-structured with an introduction, executive summary, and headings throughout the answer. Most candidates set out their conclusions and recommendations in an executive summary.

A minority of candidates gave advice and recommendations throughout the report rather than bringing them together in the executive summary. Although correct advice and recommendations was scored regardless of where they were provided, this was considered a fault within "structure". Large quantities of irrelevant material, and an absence of calculations or illustrative calculations where required were also considered faults within "structure".

Identification and Application

Most candidates identified and addressed all six issues. A few candidates failed to consider VAT, a comparison of capital costs, and loss-buying.

Comparison of net costs of construction in UK and Arcadia

While most candidates addressed this issue, a significant minority did not. Some candidates included capital allowances in their calculations, which was positively marked so long as the same allowances were not then double counted in profit or tax calculations.

Value Added Tax (VAT) regime in UK

Only a few candidates demonstrated a sound knowledge of the VAT regime and attribution rules in the UK, concluding that potential additional VAT recovery costs would only occur once the factory was used to produce goods for the group's private hospital activities.

How to best finance an investment in Arcadia, and profit repatriation

Most candidates discussed the basic aspects of interest, dividend and royalty payments from Arcadia and a significant number identified that a 50:50 equity:debt split gave the optimum post-tax solution. However, very few demonstrated an understanding of the overall group impact whereby interest and royalty payments were not only tax neutral but reduced residual profits in Arcadia that would be subject to withholding tax. Very few candidates produced effective calculations to enable them to consider the issue on a group-wide basis.

A few candidates mentioned debt repayment as a profit repatriation mechanism and were positively marked for that.

Comparison of post-tax profits after repatriation

While every candidate considered this issue, the quality of answers was variable. Lower quality answers were often due to calculation errors with an incorrect treatment of grants, and asymmetrical treatment of interest and royalties.

Many candidates conflated capital costs and net revenues into a single calculation to arrive at an overall perceived profit, the effect of which was to distort the true picture and hence the subsequent judgements.

Transfer pricing issues in respect of movement of goods, cross-border financing, royalties, and CFC issues

Nearly all candidates addressed these areas and a significant majority scored highly by explaining the transfer pricing and CFC rules succinctly, and in identifying the specific aspects of the question they applied. Apart from referring to interest and royalty rates cited in the question, no numerical analysis was required, and thus qualitative descriptions were sufficient.

Implications of purchasing an Arcadian company with historical losses

Although this issue was mentioned by most candidates, many failed to score well because they dismissed the possibility out of hand without due consideration (for example, suggesting that UK anti-avoidance measures would prevent the scheme from working, despite the question explicitly saying it was effective in Arcadia). Other candidates embraced the prospect of a purchase without considering the commercial needs for due diligence, and warranties and indemnities.

<u>Relevant Advice and Substantiated Recommendations</u>

Most candidates addressed the three areas, however, the quality of discussions to reach conclusions were variable, ranging from non-existent to extensive.

A small number of candidates failed to make any meaningful recommendations, merely repeating the facts stated in the question and/or some of the issues discussed above, and then concluding with "on balance" without any discussion on the key factors for and against each option.

Whether to build factory in UK or Arcadia

This was addressed by every candidate. The best answers weighed up separate financial analysis regarding the after-tax cost of capital and profit flows, and the possible impact of the loss-buying scheme.

Well-constructed arguments and good technical analysis scored highly, even when based on erroneous calculations.

If Arcadia, whether to invest as equity or debt

A minority of candidates did not address this, having decided to recommend a UK investment. This was despite the question specifically stating that the paper must include consideration of how an investment in Arcadia would be structured to optimise the tax position.

Whether to use a Newco or existing loss-making company in Arcadia

This area was the least well dealt with, with some candidates making no recommendation at all. The best candidates recognised that the financial impact of buying a loss company could not be quantified from the available information, but that there were commercial issues of due diligence and contractual assurance, as well as wider reputational issues, which would have a bearing on whether to pursue this possibility.

VAT and Other Indirect Taxes

General Comments

The question required candidates to prepare a draft report for the tax partner at their firm, with a view to advising Darius Azimi, a sole trader personal trainer (“PT”) and member of a family building partnership, as to how to handle a recent inheritance of land and an increased partnership share from his uncle. The land was held jointly with Darius’s brother, Iskander, who was also a member of the family partnership.

There were two options to consider:

Option 1 envisaged the purchase of a greenfield site in the new town of Maynard Keats to facilitate the construction of a “fitness hub” (“the Hub”). The intention was that this would be the first of a chain of fitness hubs. Darius had been operating as a sole trader PT and had always dreamt of expanding this.

Option 2 involved the use of the inherited land by the partnership to build three blocks of apartments on a “build-to-rent” basis. The proposed lettings would be a mixture of exempt residential lettings and standard-rated holiday-type lettings. Darius and his brother would work closely together on this project, and Iskander already had experience in this field.

Figures provided for both options were no more than illustrative, and most candidates understood this and proceeded accordingly. Credit was given for any reasonable handling of the numbers provided.
Overall, candidates engaged with the question well and offered some sensible responses. Many candidates offered responses which, while differing from the suggested answer, were nonetheless

valid and credible suggestions, and credit was given for these. Direct taxes in both options, but particularly option 2, were generally not very well-handled.

<u>Structure</u>

The vast majority of candidates set out the reports in a clear and logical fashion, and virtually all of them included a useful Executive Summary. By and large structure was not a problem.

<u>Identification and Application</u>

Option 1: VAT

The vast majority of candidates correctly identified that the financing of Option 1 by way of disposal of land and partnership share would not give rise to output VAT.

Candidates also generally handled the range of proposed supplies at the Hub well, correctly identifying potential exemption for physiotherapy supplies and the implications of rental of land/facilities to self-employed PTs and physios. Most candidates engaged well with the range of supplies at the café as well.

A large number of candidates sought to reduce, or even eliminate, exempt income by recharacterising the relationship between Darius and the physiotherapists, by making sure that supplies were made by the physios rather than by Darius/the Hub. They also discussed opting to tax the site and so ensuring supplies of land were also taxable.

The discussion of input VAT recovery reflected the approach to sales from the Hub. Where candidates continued to see exempt income arising, most discussed the restrictions this would imply credibly.

A surprising number of candidates failed to discuss the Capital Goods Scheme ("CGS") at all, even though it was clearly relevant.

Few candidates discussed the implications of opting to tax for self-employed PTs and physios, most of whom could be expected to be unable to recover the input VAT arising on the rental charges.

In summary, this aspect of the question was generally handled well with some very good responses. Weaker candidates failed to engage with the key points.

Option 1: Other

The vast majority of candidates advised incorporating the business and this aspect was generally well-handled, with good commentary on tax and commercial advantages and disadvantages of incorporating.

A small number of candidates suggested continuing as a sole trade, and credit was given where the response was well-reasoned. The weakest candidates did not engage with the point at all.

A surprising number of candidates missed points about capital allowances and loss relief, and the implications for the business.

Candidates performed well when discussing the CGT implications of the sale of the land, with most appreciating that the land value was unlikely to have changed since probate. The CGT implications of a change in partnership shares, however, was not well-handled, with few if any candidates showing familiarity with SP/D12. Even so, credit was given where the follow-up points were well-discussed.

A surprising number of candidates appeared to regard partnership shares as equivalent or even identical to shares in companies. This did not affect marking in any meaningful way but was suggestive of a lack of familiarity with partnerships as a business structure.

Options 1 & 2: Stamp Duty Land Tax ("SDLT")

Most candidates correctly identified that SDLT would arise on the land to be purchased under Option 1 and applied this correctly in calculating the amount due. Many candidates also suggested checking that no option to tax existed and explained the associated costs and risks.

Many candidates did suggest use of some kind of new vehicle to carry on Option 2, whether by way of incorporating the entire partnership, or simply to carry on the lettings activity, and SDLT in that scenario was generally well-handled.

Option 2: VAT

Generally-speaking, this area was well-handled by candidates.

Most correctly identified the future mix of taxable and exempt lettings, and most correctly applied this in assessing a restriction to input VAT recovery. This gave rise, in most cases, to a range of responses to reducing the input VAT.

Many candidates suggested a "design and build" approach, and where this was well-reasoned (e.g.: by involving a "customer" entity), credit was given. Credit was also given for good and clear discussions of possible transfers of the apartments, or some of them, to a connected entity for onward letting.

Other options included transferring the developed company to a property holding company or to a development company.

Again, the CGS was missed surprisingly often, though less so than in the case of Option 1.

Weaker candidates tended to make basic errors as to liability or recoverability and this fed into the rest of their response.

Option 2: Other

There were a number of possibilities candidates could discuss and marking was suitably flexible. However, this aspect of the question was not well-handled. That said, the marks available for this section were not large and so this was not a major contributor to the outcome for candidates.

Option 2: Corporation Tax Implications of Propco

This was not well-addressed by most candidates who suggested using a connected entity to carry on the lettings activity, which was disappointing.

<u>Relevant Advice and Substantiated Recommendations</u>

Comparison of Options 1 and 2: VAT

Most candidates made a decent effort to compare the options on VAT and to advise accordingly, and credit was given for this. While not all candidates suggested the same kind of planning for Option 2 as outlined in the suggested answer, most did try to ameliorate the position and credit was given where this was well-reasoned. Note that this also applied to good answers to Option 1 which suggested means of avoiding partial exemption.

Weaker candidates, who had missed some of the more important I&A points, tended to struggle in the more detailed discussion, with commensurate implications for their scores.

Overall, this section was generally handled well.

Comparison of Options 1 and 2: Direct Tax

Most candidates did attempt to make a comparison between the Options on direct tax grounds, and some answers were very good.

Some of the answers were rather perfunctory in making their comparisons, but the majority did at least seek to engage with the point. However, many answers were less clear in addressing the key question than they might have been.

Credit was given for well-reasoned responses which differed from the suggested answer.

Comparison of Options 1 and 2: Other Matters

This aspect was rather disappointingly handled. A surprisingly high number of candidates, including some who scored highly on the I&A section, did not engage convincingly with the commercial risks of the two Options, nor with the family dynamics which were clearly highlighted in the question.

Even so, the best answers did make clear and sensible recommendations with specific reference to the commerciality and risk profile of the two Options, as well as reflecting on the implications of Darius's family situation.