

MAY 2024 EXAMINERS' REPORTS

CHIEF EXAMINER'S COMMENTS

Overall, the results this session were good across all papers. The two exceptions to this were:

- 1) Domestic Indirect Tax Advanced Technical. Here the pass rate was affected by a number of candidates who were not sufficiently prepared for the paper (some scored less than 20%).
- 2) Inheritance Tax, Trusts and Estates Application and Professional Skills paper. Here the low pass rate was influenced by the candidates as a group struggling with the question, with a significant proportion lacking the necessary technical knowledge. Failure to identify issues then meant they were unable to make recommendations.

For potential candidates and employers, I know it can be off-putting to see typical pass rates hovering around the 40% mark and sometimes well below this. However, it is important to be aware that the published figures are just a reflection of the performance of a group of candidates rather than how a well prepared candidate will fare. Further analysis of the marks and data from the Tutorial Bodies shows that there is a wide variation in the pass rates for different groups of candidates.

I touched on this in my comments after the last session, but those on the guaranteed pass schemes with the Tutorial Bodies perform substantially better than those not on the schemes (pass rates can typically be 20%-40% higher than the average pass rate). In turn, once you take out these candidates, on average, the others will perform worse than the headline pass rate and therefore the differential between these two groups of candidates will be bigger than at first appears. The guaranteed pass schemes aren't requiring candidates to do anything special beyond what we would expect candidates to do (e.g. turn up to lectures, do tests along the way etc). Even if candidates don't join a tutorial body scheme, I would strongly recommend that they look at the requirements of the scheme and ensure that they do at least what would be required if they were in it.

It is also noticeable that candidates on some routes to qualification perform better than candidates on other routes. Thus, the highest pass rates tend to come from those on the Joint Programme followed by those on the Tax Pathway. It is possible that this is linked to the point above with more of some groups being on a guaranteed pass scheme; it could be because these candidates have had more time in the workplace before sitting their exams, take more study leave, or have more assessment experience on tax subjects or in general.

AWARENESS

Module A - VAT including Stamp Taxes

General Comments

Generally there was a satisfactory performance by most candidates.

Question 1

The most common errors when calculating the VAT payable under the Flat Rate Scheme were not using the VAT inclusive turnover and/or deducting input VAT. Several candidates used 12% instead of the 13% given in the question, despite the fact that Jane was not in the first year of registration, and

some candidates wrote at length as to whether Jane was a limited cost trader, a few concluding that she was, and therefore used 16.5%.

Question 2

The main problem with the answers to this question was poor explanations, and it was often unclear as to which part of the question was being answered. There was confusion over the different VAT treatment of one-off and continuous supplies, which meant that the first part was generally badly answered. The answers to the second part were generally better, although some candidates clearly misunderstood the 14-day rule and concluded that the tax point of the balance was the date of payment rather than the invoice date.

Question 3

The answers to this question were surprisingly poor. Several candidates thought that the company could claim the business use proportion of the input VAT on the purchase price of the car and a many candidates were unaware that insurance is an exempt supply. Some candidates thought that because detailed mileage records were not kept, that no input VAT on the fuel could be recovered. Where the fuel scale charge was mentioned, in several cases candidates thought that it was an input VAT claim rather than an output VAT charge.

Question 4

No comments.

Question 5

No comments.

Question 6

Several candidates did not realise that as input VAT would not have been claimed on the original purchase of the car, that there was no output VAT to consider on deregistration. The £1,000 de-minimis rule, where considered, was frequently applied incorrectly to each individual amount of output VAT rather than on the total.

Question 7

Many candidates thought that the error could be corrected on the next VAT return. Candidates are reminded that they must relate their answer to the scenario given in the question. In this case, the error was clearly deliberate but not concealed and the disclosure was unprompted, so writing about penalties in general was not required. Very few candidates mentioned that interest would be charged.

Question 8

This question was generally well done, but several candidates thought that the supply had to be made to a taxable person and/or must be made for consideration. Some candidates discussed the Transfer of Going Concern (TOGC) rules which were not relevant.

Question 9

The VAT treatment of land and buildings is a complicated area which was clearly not well understood by the majority of candidates, although there were a few excellent answers. Candidates are reminded that they must answer the requirements of the question, which in this case was to state the VAT rating of the supplies, not whether VAT was due or could be recovered.

Question 10

This question was generally well done, although some candidates clearly did not read the requirements carefully and wrote about the simplified tests. Where a full partial exemption calculation was done, many did not round the percentage and a surprising number of candidates did not even consider the de-minimis test, or only considered one part of it.

Question 11

No comments.

Question 12

No comments.

Module B - Inheritance Tax, Trusts & Estates

General Comments

Overall performance on this module was good, however some candidates spent valuable time writing long explanations for calculation questions which were not necessary, particularly on earlier questions. This may have cost them time which they needed on later questions, as some later questions were not attempted.

Question 13

Performance on this question good, with some candidates getting full marks. Mistakes included omitting the annual exemptions and deducting the PET from the available nil rate band (NRB). The majority got the rate of tax correct, although a small number used 20% or 40% instead of 20/80 (25%).

Question 14

Performance on this question was very good, with lots of candidates achieving full marks. Most were getting the valuations correct. A small number missed the marriage exemption, and some didn't mention that the gift was a PET and only chargeable if died within 7 years.

Question 15

Some candidates achieved full marks, however there were quite a few areas where candidates didn't take the correct approach to this question. Some ignored taper relief, and others incorrectly applied taper relief on the PET. Some candidates calculated the value of the PET but didn't clarify that there was no IHT as it was covered by the NRB. Too many candidates adjusted the gross chargeable transfer amount that was provided in the question, adding on the lifetime tax paid or taking further annual exemptions. Some candidates deducted the lifetime tax before calculating IHT at 40%. A small number

of candidates combined everything together which isn't the correct approach. It is important to learn the correct layout for this style of question to be able to approach it in a methodical manner.

Question 16

Performance on this question was generally good, with some achieving full marks. Most correctly stated that Zedmond was not deemed domicile. The most common error was with assets 2 (Euros) and 3 (Sterling) - Euros held in a UK branch of a Spanish bank are a UK asset and liable to IHT, but UK Sterling held in a bank in the Caymen Islands is not a UK asset and therefore not liable to UK IHT for Zedmond. Asset 5 also caused some problems, with many candidates saying only that the debt was not legally enforceable, but the relevant point was that it is based on where the debtor resides, which was in Germany, and it was essential to get the reason correct as well as saying that it was not liable to UK IHT.

Question 17

This was one of the questions where some candidates wrote far too detailed explanations for a calculation question where no explanations were required. Otherwise, performance was generally good, with some achieving full marks. The most common errors included taking Kabir's NRB of £300,000 instead of 100% of the current NRB of £325,000, and some had adjusted his NRB for the exempt amount to his wife Amelia. Another common error was stating that the residence NRB could not be transferred because Kabir died before it was introduced. If Kabir's unused residence NRB had been transferred, some then forgot to restrict it to the value of the home.

Question 18

Performance on this question was poor. Lots of candidates missed this question out, and a large number struggled with it. Too many candidates were suggesting that APR could be pro-rated, however as the proceeds had only been partially reinvested in agricultural property, APR was not available on death. However, a small number of well-prepared candidates scored full marks on this question.

Question 19

Quite a few candidates missed this question, and only a small number scored full marks. Where candidates struggled it was mostly with the splitting the management expenses, and the R185 figures. Some used gross figures, and some used the tax figures calculated above but forgot to adjust for the management expenses deducted so tax should have been at 20/80 of the net amount.

Question 20

Performance was generally good, however some people were adding in an extra unnecessary calculation before the 60% QSR.

Question 21

Performance was generally good for those who answered the question with some achieving full marks but quite a few missed this question out. However, some completely ignored the pre-owned asset tax issue and focussed solely on gift with reservation of benefit. Another common error was not pro-rating the annual value since Ronaldo didn't contribute the full amount used to buy the house.

Question 22

Performance on this question was generally poor although a small number of well-prepared candidates achieved full marks. Too many candidates only considered how income is taxed in the trust and not the position of the beneficiaries.

Question 23

Performance on this question was generally very good, with those who attempted it generally scoring full marks. Some candidates offset the current year loss on the painting against the gain on the shares, instead of against the residential property gain which would save CGT at a higher rate. This seemed odd in some cases where candidates had offset the brought forward loss and the AEA against the residential property, but not the loss on the painting. Some forgot to split the AEA between the two trusts.

Question 24

Performance was generally good from those candidates who completed the question. Most candidates knew who needed to pay the IHT, but some were not precise enough with the dates saying within 6 months of death (i.e. 22 January 2024), instead of within 6 months of the end of the month of death (i.e. 31 January 2024). Only a small number of candidates remembered that the death estate tax is paid on the earlier of two dates.

Module C – Corporation Tax

General comments

There were many well-prepared candidates who answered most of the questions correctly. However, some candidates seemed unprepared and failed to use the correct standard approach for certain styles of questions which resulted in confused answers. Some candidates wasted time writing detailed explanations that were unnecessary, particularly for computational questions.

Question 25

Performance on this question was disappointing. The main error was not splitting the 18-month period into two accounting periods. Some managed this but then addressed only one accounting period, or did not allocate the adjustments properly. Although the capital loss was incurred in the 12-month accounting period, it should have been carried forward and offset against the gain in the second accounting period. Some candidates did not read the question carefully enough and allocated rental income to both accounting periods, despite that income only starting in the second accounting period; some forgot to pro-rate it for six months of the annual amount, while others took the annual amount to be a monthly amount. Only a few candidates correctly calculated the capital allowances at 107.5% for the super-deduction of 130% pro-rated for a December accounting period. Some candidates wasted time calculating the Corporation Tax liability which was not required.

Question 26

Performance was mixed on this question. Many candidates did very well, however some candidates calculated the Corporation Tax liability incorrectly by taking the marginal rate of 26.5% on the taxable profits of £40,000, resulting in an incorrect liability of £10,600, which is higher than using the main company rate. To use the marginal rate to calculate the tax liability, the profits liable to the small profits rate should be calculated first ($£12,500 \times 19\% = £2,375$), and then the marginal rate should be

applied to the remaining profits ($£40,000 - £12,500 = £27,500 \times 26.5\% = £7,287$), giving a total Corporation Tax liability of £9,662. This is the same as taking the main rate of 25%, and deducting marginal relief. Some candidates did use this shortcut correctly. Some candidates made errors when calculating marginal relief by adding some unnecessary figures into the calculation. Most candidates knew the correct filing and payment dates.

Question 27

Performance on this question was disappointing, although some well-prepared candidates achieved full marks. Many did not appear to know the special rules for balancing charges on the disposal of assets on which enhanced allowances had been claimed.

Question 28

Performance on this question was mixed. Common errors included the structures and buildings allowance, and not specifying whether the treatment of each item would increase or reduce the chargeable gain. Some candidates forgot to address the cost of the extension, only focussing on the structures and buildings allowance aspect. Some candidates thought that SDLT should not be included in the chargeable gain computation because it has its own calculation of the actual tax.

Question 29

Most candidates achieved full marks. Those that did not typically forgot that the amount not reinvested was chargeable immediately, and that fixed plant and machinery falls under the depreciating asset rules.

Question 30

Candidates who failed to use the standard column computational approach for the loss allocation presented unclear and confused answers. The main errors involved the offset of the capital loss against trading profits, and not adding the chargeable gain to the trading profits so that the loss could be used against it. Some candidates carried the loss back too far while others incorrectly used a first-in-first-out approach.

Question 31

Most candidates scored well. A small number of candidates erroneously suggested that the carry back of the loss would save more tax as the prior year had lower tax rates. Some candidates were not specific enough with the carry back claim, failing to state that a current year claim must be made before a prior year claim.

Question 32

Many candidates scored well but some candidates missed that one of the requirements of Substantial Shareholdings Exemption is for the company to be a trading company, and wrongly stated the time period that the shares have to be held.

Question 33

Most candidates found this question difficult, particularly the cash repayment aspect. Many candidates chose the tax adjusted trading loss instead of the Research and Development Expenditure

Credit (RDEC), and most missed or miscalculated the net value of the RDEC by taking 25% instead of 75%. The PAYE and NICs aspects caused less problems, but some incorrectly multiplied this by 3.

Question 34

Most candidates scored well although there were some there were some problems with rental income and expenses. Some candidates allowed the furniture, which would only have been allowable if it was replacing old furniture, which did not apply in this scenario as the property had just been purchased.

Question 35

Although some candidates scored well, others unfortunately included the tax paid on the foreign income from the overseas permanent establishment, and then calculated tax on this gross amount.

Question 36

Most candidates correctly established the filing and payment date. Many referred to the normal filing penalties, not noting the significance that this was the third time that the company had filed late. Some candidates thought there were no tax geared penalties. Others referred to the points-based penalty system that applies to VAT. However, the well-prepared candidates achieved full marks in this question.

Module D - Taxation of Individuals

Overall comments

Most candidates did well, displaying a good knowledge of the areas tested. There were some gaps in knowledge (eg restricting relief for property business finance costs; CGT and residence) but on the whole, where marks were lost this was due to isolated errors or failing to explain answers in enough detail.

Question 37

Most candidates performed well in this question. A common error was to fail to take into account the £1,000 of dividends taxed at 0% in calculating the remaining basic rate band.

Question 38

The format of the answer confused some candidates who fell back on a full income tax calculation. Most candidates picked up marks although few dealt with the underpaid tax correctly.

Question 39

A significant minority of candidates seemed to be unaware of the rules restricting relief for finance costs in the case of a residential property.

Questions 40 and 41

Almost all candidates were comfortable answering these questions, scoring highly.

Question 42

A common error was to tax the amount of the annual allowance, rather than deduct the annual allowance from the pension contributions and tax the amount remaining.

Question 43

Many candidates struggled with this question. Few candidates addressed the CGT implications in any detail.

Question 44

Most candidates were comfortable with the HICBC. A common error was to add the pension contribution in calculating adjusted net income, rather than deduct it.

Question 45 & 46

On the whole, candidates performed well in these questions, showing a good knowledge of CGT.

Question 47

This proved to be possibly the most challenging question of the module. Common errors included stating that the gain on the shares was taxable because the company was in the UK, and that the gain on the watch wasn't taxable because he had received it as a gift.

Question 48

Most candidates had a good grasp of the key principles. Where marks were lost it was often for not providing sufficient details: eg identifying the percentage for the penalty but not stating what the percentage would be applied to.

Module E - Taxation of Unincorporated Businesses

Overall comments

Most candidates showed a good understanding of the subjects examined. However, candidates should take care to fully explain their answers to written questions.

Question 49

Most candidates were familiar with the rules in this area. Not all candidates clearly showed which part of the question – a or b – they were answering at which point.

Question 50

Quite a few candidates treated the drawings as an allowable deduction.

Question 51

Most candidates performed well in this question.

Question 52

Almost all candidates were comfortable with the calculation element of this question. Some candidates lost marks in the written element by not fully explaining their answers – eg stating Class 2 NICs cease but not explaining from when.

Question 53

Many candidates did not explain, or did not fully explain, how relief was given for the interest.

Question 54

This question proved challenging for many candidates. A main issue was determining whether an adjustment item was income or an expense. Very few candidates were aware that the total adjustment could be spread.

Questions 55 and 56

Most candidates were comfortable with the rules and principles tested in these questions.

Question 57

Some candidates failed to calculate the correct amount of gift relief.

Question 58 and 59

Most candidates performed well in these questions, showing a good knowledge of the areas tested.

Question 60

Some candidates struggled to apply the two exceptions from making POAs.

ADVANCED TECHNICAL

Taxation of Owner Managed Businesses

General comments

Overall, candidate performance on this paper was mixed.

As in previous sittings, candidates performed well in computational questions – including the adjustment to profit calculation in question 1, capital allowances in question 3 and R&D tax relief calculations in question 6.

However, they performed less well in other questions. In particular, candidates demonstrated a fundamental lack of awareness of the termination payment and PAYE rules in question 4. Candidates also wasted time listing generic conditions rather than applying these to the specific scenario (see question 5), or carrying out calculations that were not required (see questions 3 and 4)

Question 1

This question required candidates to calculate trading profits for a sole trader and apply the new tax year basis and transitional rules. Candidates were also asked to explain NICs in the tax year of attaining state pension age. Candidates generally performed well.

Adjustments to profit were dealt with well, with the two most common errors being applying a 15% restriction to the maintenance of the car and using the value to customers of £600 for the sailing course. Candidates also performed relatively well in dealing with the impact of the transitional year 2023/24.

A significant minority did not deal with the second part of the requirement well – either confusing the 2023/24 and 2024/25 rules or not commenting at all on how the tax year basis would apply from 2024/25.

A significant number of candidates mixed up the difference between Class 2 NICs (in year cessation of liability) and Class 4 (following tax year) or simply ignored the impact of reaching pension age.

Question 2

This question required candidates to consider potential CGT reliefs on the disposal of a single store by a sole trader, and calculate personal tax and NIC payments due. Candidates' performance was mixed.

In the first part of the question candidates generally performed well in identifying the availability of rollover relief and gift relief and application of the depreciating asset rules. They performed less well when discussing the application of BADR, with a significant number discussing the rules for associated disposals and limited companies. Very few candidates identified that rollover relief and gift relief could be claimed together.

Candidates generally performed well in the second part of the requirement. NIC calculations were generally well attempted. Some candidates treated the gift aid and pension contributions incorrectly - deducting them from gross income or not grossing up correctly. Many candidates failed to bring the CGT liability discussed in the first part of the question into the computation. Marks were often lost by not following the income tax proforma and failing to clearly state payment due dates.

Question 3

This question required candidates to complete a capital allowance computation for two periods, the second of which included a cessation of trade. Candidates' performance was good.

Common errors included stating that assets sold which originally qualified for AIA or FYA did not give rise to a balancing adjustment on cessation. Most candidates either ignored the super deduction completely or failed to adjust for the period which overlapped 1 April 2023.

The majority of candidates failed to identify the eligible amount for the structures and building allowance, but picked up the follow on marks available. Many candidates discussed and calculated capital gains on the sale of the factory despite this not being a requirement.

Question 4

This question looked at PAYE, NIC and corporation tax implications of a redundancy package offered to a director / shareholder. Candidates did not perform well.

Many candidates demonstrated a lack of understanding of the tax treatment of termination payments, and the PAYE and NIC implications. Common basic errors included treating pension payments as taxable income, asserting that the company was ceasing to trade because the shares had been sold and stating that balancing charges/allowances would arise due to the disposal of the car. Many candidates also provided detailed calculations of NIC liabilities which were not required.

Question 5

This question required candidates to explain the requirements for a company purchase of own shares and discuss the tax implications for the shareholder in question. Again, candidates did not perform well.

This was primarily due to very few addressing the legal and accounting requirements of the share buyback. Candidates performed better on the tax implications of the repurchase. However, many candidates simply listed the conditions for capital treatment, without applying these to the question scenario.

Question 6

This question tested understanding of the R&D tax relief regime for SMEs. Candidates generally performed well.

The majority correctly identified the allowable R&D expenditure in relation to the employees and software. However, candidates were less familiar with the treatment of subcontractor costs paid to a connected person. Very few candidates were able to correctly calculate the tax adjusted profit. There was also confusion with regards to the surrenderable loss for R&D tax credit purposes – some candidates failed to add the enhanced R&D tax credit to the loss and/or compared the loss with the enhanced R&D credit only, excluding the costs themselves.

In the second part of the question, a significant number of candidates simply stated the tax credit should be claimed in due to the cashflow advantage without considering the additional tax savings potentially available from carrying the loss forward instead.

Taxation of Individuals

General Comments

Overall performance on this paper was mixed. In particular candidates appeared to find question 5 challenging.

Question 1

This question required candidates to discuss the concept of domicile and apply it to the circumstances in the question.

A lot of candidates demonstrated a good understanding of the fundamentals of domicile. However, many candidates could not clearly define domicile of origin, domicile of dependence and domicile of choice which in turn lead their answer to be confused and lacking key points.

Many candidates spent considerable time discussing the remittance basis of taxation, which was not relevant to the question. Further, some candidates discussed the Statutory Residence Test ("SRT") and wrote in detail the rules for the SRT which again was not relevant to the question and not requested in the requirement.

Candidates who scored well were methodical in their explanation of the various types of domicile and then applied this clearly to the circumstances in the question.

Question 2

This question was a good discriminator with some candidates scoring highly and others failing to generate many marks. Candidates would be advised to ensure that they read the question carefully as many did not address the main point of the question i.e. that this was testing the optional remuneration arrangements. Some recognised the rules, noted them in their answer but then proceeded to ignore them as they discussed the tax treatment of each separate benefit. Candidates that recognised and then applied the rules scored highly in the question.

The question also included the tax treatment of non-tax advantaged share options, this continues to be an area where candidates confuse the tax treatment of different share option schemes. Many displayed good application to the question by calculating the net cash received after taxes as specified in the requirements.

Question 3

Candidates were asked to calculate, with explanations, the pension tax charge due on excess pension contributions and options of how this charge could be paid.

The question required candidates to consider carry forward allowances and required consideration of tapering of the annual allowance for high-income individuals.

A lot of candidates could not clearly define threshold income or adjusted income and further could not apply this accurately to the facts of the question.

Many candidates did not apply the correct thresholds with respect to the annual allowance, and the tapering thresholds.

Generally, candidates had a good knowledge of how the annual allowance charge could be paid from the pension scheme.

Question 4

This question concerned two individuals selling shares in an unquoted trading company. Candidates were required to calculate the Capital Gains Tax liability for the two individuals and to advise on whether one of them could pay their liability in instalments.

Most candidates were aware of some of the requirements for a disposal of shares to qualify for business asset disposal relief. Unfortunately a lot of candidates focussed solely on voting rights, missing the additional requirement to be entitled to either 5% of the profits available for distribution and at least 5% of the company's assets on a winding up or 5% of the proceeds of a disposal of the whole of the ordinary share capital of the company.

The question also asked candidates to consider an associated disposal of a building. This was dealt with well overall, although a lot of candidates failed to correctly deal with the gain relating to the pre-April 2008 period where the building was rented to the company.

Candidates were aware of the conditions for payment by instalments and the mechanism for this but did not always correctly apply these to the circumstances in question.

Question 5

This question required candidates to identify the penalties that would apply to a UK resident, non-UK domiciled individual who has failed to notify HMRC of their liability to tax and failed to file tax returns. Candidates were also expected to consider the basis on which the taxpayer would be taxed in various tax years, and to advise on whether the Remittance Basis should be claimed or not.

The performance of candidates on this question varied. The majority of candidates correctly identified that the failure to notify penalty regime would apply, but many went on to discuss late filing penalties (which were not applicable in the circumstances) instead. The late payment penalties and late payment interest aspects were however answered well in general.

Unfortunately, a large number of candidates approached the basis of taxation element of the question by sharing a lot of general information about the Remittance Basis but failed to apply the rules to the taxpayer's circumstances or to discuss the impact of a Remittance Basis claim on their tax liability. In addition, candidates generally showed a poor understanding of remittances and the mixed fund rules. This meant that many candidates were unable to score highly on this question.

Question 6

Candidates were required to calculate the amount payable to HMRC on 31 January 2025. To arrive at this figure candidates needed to calculate the individual's 2024 liability & deduct the payments due on account. The individual was in receipt of employment income, rent and a life policy proceeds.

On the whole candidates dealt with the employment income aspects well, with many correctly commenting on why the vehicle provided would not be treated as a van for benefit in kind purposes.

The rental income and mortgage interest were also mainly dealt with well. A common error was to claim the mortgage arrangement fees as an expense rather than including them as part of the tax

reducer calculations. Very few candidates correctly explained why the costs for the new tenancy agreement were allowable.

While some candidates understood how to correctly calculate the chargeable event, unfortunately many did not. The majority of candidates did not attempt to calculate the top slicing relief.

Human Capital Taxes

General Comments

In general, well-prepared candidates did well on this paper. Questions 5 and 6 were the most challenging for candidates.

Question 1

This question tested employer responsibilities in respect of student loans, and the consequences of delayed PAYE submissions and payments. The second requirement related to penalty tax on a loan to a close-company participator.

Performance was mostly good. The correct student loan deductions were calculated in most cases, but there was often uncertainty as to whether any correction was needed by the employer. PAYE penalties and interest offered the most straightforward marks in this question and were well handled. Many candidates picked up on the suggestion of quarterly PAYE payments and the fact that these would not be allowed. Almost all identified that the company was close, but some candidates referred to ordinary benefit rules for employee loans.

Question 2

This question was well answered by many candidates. Those who were well prepared scored highly particularly on the first requirement.

Most candidates correctly identified the treatment for core items: bonus, unused holiday pay, outplacement counselling.

Most candidates also correctly identified the tax treatment of pensions contributions and stronger candidates identified that the annual allowance carry forward would be available.

Many candidates scored marks for the treatment of the Payment in Lieu of Notice (PILON), although some then confused the PILON with the treatment of Post Employment Notice Period (PENP).

Overall knowledge of s401 ITEPA was good and many candidates correctly explained the treatment of the ex-gratia payment and the redundancy payment.

Many candidates spent time explaining the Foreign Service Relief rules in detail, which was not required.

Some candidates carried out a full residence analysis which was not required as the question stated the residence position.

The performance of candidates in Requirement 2 was more mixed. Most candidates managed a gross up calculation to some extent and stronger candidates managed to calculate the foreign tax credit.

Many candidates got the hypothetical tax position on the package correct, but then deducted it against tax due and grossed up the net amount, rather than deducting the hypothetical tax against gross income. Follow through marks were awarded for the rest of the calculations.

Question 3

This question required candidates to assess Lee's UK tax residence position and then comment on the tax positions that would apply to two distinct periods of the tax year. The second requirement was for a tax calculation to determine the grossed-up income tax payable by the employer.

Almost every candidate correctly concluded that Lee would be UK tax resident, and as part of the Statutory Residence Test (SRT) analysis, the automatic overseas tests were correctly applied. Stronger candidates correctly applied the automatic UK tests and concluded that residence was established due to the 'only home in the UK' rules. Where candidates moved on to the sufficient ties test and correctly concluded the UK residence position, follow through marks were awarded.

Most candidates correctly undertook analysis of the split year rules and identified the date at which the tax year could be split into a non-resident and resident period.

The rest of the explanation for tax positions were less well attempted. Some candidates correctly identified the position that would apply from 6 April to 5 August but were not always able to explain why. Stronger candidates rightly picked up that the Double Tax Agreement (DTA) extract was provided and commented on how this would apply to this part of the tax year.

Most candidates correctly identified the tax treatment for income earned during the resident part of the tax year including identification that Overseas Workday Relief (OWR) would be available. Some candidates commented on Temporary Workplace Relief.

For Requirement 2, most candidates did a good job of working out taxable income. Stronger candidates were able to apply OWR and compare against remittances to the UK to work out if there had been excess remittances to the UK. Some candidates explained OWR as being available to individuals who have been non-resident for three tax years out of the prior five tax years, which is not the correct criteria.

The gross-up tax calculations were attempted well by strong candidates. Several candidates applied hypothetical tax deductions at the wrong point (i.e. against UK tax rather than against gross income) but follow through marks were awarded.

Question 4

This question tested the treatment of equipment provided to workers, including laptops with significant private use. The second requirement raised the issue of a change of employment status.

Performance was good overall. The exemption of the wheelchair mount was spotted by most, though not always explained. Candidates were better at calculating Class 1A NICs than they were at describing how these were arrived at. Most identified the possibility that Connor should be treated as an employee, and factors suggesting this. Some referred to IR35 rules which were not in point as there was no service company.

Question 5

This question looked at employer obligations with respect to employees being sent to help set up an overseas branch of the UK business in China. It also looked at Chinese branch visitors coming to the UK for training and project work. The main focus was how an employer can handle situations where dual tax withholding situations will arise and conversely options for easement on inbound STBVs where the tax treaty exemption does not apply. Commentary was also expected on the accompanying expenses and benefits.

Nearly all candidates correctly identified that the UK employees working in China remained UK tax resident under the Statutory Residence Test. However, very few marks were available for this analysis as it was not intended to be complex and a number of candidates spent significant time outlining in detail the tests in full. Full marks could be obtained by simply outlining why none of the automatic overseas tests applied and why the second automatic UK test applied. It was noted that many candidates incorrectly stated that as a home was available in China for the duration of the assignment, then the second automatic UK test could not apply.

Similarly, nearly all candidates correctly identified that the workers would remain subject to Class 1 NIC throughout the assignment. However, most candidates incorrectly advised that this would mean no social security obligations arose in China. The '52 week rule' is enshrined in UK legislation only, and China, nor any other 'Rest of World' country is bound to it.

Most candidates correctly recommended an Appendix 5 agreement and identified relevant exemptions and deductions for the travel expenses. However, it should be noted that ITEPA 2003 s 341 and s 376 only potentially apply if the employment is performed wholly outside the UK. In this case the work in China was an assignment, not a separate employment and these specific provisions will not apply as before and after the assignment it is reasonable to expect that the employment will be performed, in some capacity, in the UK.

Unfortunately, very few candidates identified that the treaty exemption for the Chinese STBVs would not apply. A branch is not considered a legal entity in its own right and as such the Chinese branch is considered an extension of Banjo Ltd. Therefore, the legal and economic employer is deemed to be Banjo Ltd, not the Chinese branch. This was not intended to catch candidates out as it is a fairly common scenario within global mobility and one of the reasons why Appendix 8 agreements exist. As such, a lot of easy marks were lost as no marks were given for incorrectly recommending an Appendix 4 agreement.

Question 6

The majority of candidates struggled to answer this question with quite a few not answering it at all. Those that failed had little to say about how UK registered pension schemes can provide benefits and the IT/NIC/PAYE implications of those options.

Many explained the taxation of pension contributions rather than benefits as presumably this was what they knew about pension scheme taxation.

The rules for QROPS were generally well known with attempts to apply the rules to the Malta pension scheme. There was some confusion about the unauthorised payment charge (for the receiving scheme not being a QROPS) and the overseas transfer charge (the scheme is a QROPS but not the right type of QROPS).

Most candidates knew about the 25% tax free lump sum available for registered pension schemes. For the candidates who passed there was some impressive analysis of double taxation agreements and the impact on employer PAYE obligations.

The rules for EFRBS were well understood, however, for some this led them to spend time discussing the taxation of pension contributions and corporation tax relief whereas the question was asking about the employer tax consequences of providing benefits.

Many candidates wrote about the consequences of a transfer from the Top Up Plan. The question asked what the consequences would be of transfer from the registered pension scheme.

Too many candidates started discussing tax planning for Miguel, which did not earn any marks given that the question was about the implications for the employer.

Inheritance Tax, Trusts and Estates

General Comments

The majority of candidates scored well with a high pass rate indicating a well prepared cohort. Some very high scores were achieved but also some very poor marks. There were very few non attempts or zero scores.

Candidates seemed to score consistently across the paper with the exception of question 1 which was a differentiating question but given this concerned an offshore trust it was not that surprising. The majority of candidates found this question the most difficult and failed to score a pass mark of this question. Despite this some candidates still scored very well and only one candidate failed to attempt the question.

Question 1

This question tested candidates' knowledge of non-domiciled, non-resident settlements with a UK non-domiciled, UK resident settlor. It looked at the position from the settlor's perspective on settlement and ongoing, including whether the trust was settlor-interested, for both Income Tax and CGT, the CGT implications for the trustees on the sale of UK residential property and the Income Tax position of UK resident beneficiaries who benefited from the trust.

The main issue for candidates was a failure to read and understand the question requirements. This resulted in many candidates going off on different tangents providing information that was not required, losing valuable time and failing to score easy marks. In particular, time was wasted considering the trustee Income Tax and IHT position and the CGT implications for the beneficiaries when this was not asked for and scored nil marks as a result.

Better candidates considered GWROB in relation to the settled property. However, when calculating the private residence relief available to the trustees of the sale of the residential property occupied by the UK beneficiaries, most candidates did not restrict the period of ownership and occupation to the period post 6/4/2015 when re-basing the cost to that date. Candidates rarely mentioned the gain assessable under s.86/s.87 TCGA 1992 was reduced to nil on the basis that the property was fully covered by principal private residence relief prior to 6 April 2015.

Some candidates were caught out on the dates when matching income and benefits under s.731 ITA 2007 but managed to achieve decent marks notwithstanding.

Question 2

All but one candidate attempted this question, which tested candidates' knowledge of close company transfers. The results were variable with some showing some poor knowledge in this area but overall the candidates scored well on this question.

Candidates' apportionment across the shareholders was fairly well done. The issue came when 1) applying spousal exemption, 2) considering the increase in their estate as a result of the transfer, and 3) disregarding transfers as being excluded property for the transferee. By omitting to consider these, the earlier transfers were deemed to use up the nil rate band available to the transferees sooner thus bringing the later transfers into charge and necessitating further recalculation on Gerald's death which lost them both time and marks.

When grossing the tax on the transfers the candidates failed to calculate the Gross CLT resulting from the transfer and so were unable to correctly calculate the additional IHT arising on the death of Gerald.

A good number of candidates ignored Jessie in their calculations altogether, instead concentrating solely on Gerald and therefore also lost marks as a result.

Candidates' knowledge of the rules since 6 April 2017 relating to residential property held by a non-UK domiciled individual through a non-UK envelope was generally poor. Whilst most identified that this was not excluded property many considered the reason to be that there was UK situs assets within the envelope not specifically UK residential property. They therefore valued the company share attributable Gerald excessively. Many also failed to deal correctly with the residential mortgage deducting this directly from the value of the UK property rather than across all assets.

Question 3

This question was attempted by all candidates and tested their knowledge of asset valuation for IHT, deductions, intestacy rules, the availability of the spousal exemption across different estate components and the use of a deed of variation to give effect to the deceased wishes to make a charitable donation whilst optimising the rate of IHT applicable to all components of the estate using a merger election. Overall candidates coped fairly well with the question with more than 2/3 achieving 50% of the marks.

Some candidates failed to appreciate the difference between joint tenancy and tenancy in common and what this means in terms of the distribution of the estate.

Some candidates tried to pass settled property via the rules of intestacy splitting this between the spouse and William. A fair number of candidates thought that William qualified as issue when in fact he did not, not being Paulette's natural son nor being legally adopted.

Question 4

This question tested candidates' knowledge of CGT loss carry back on death, calculation of the estate rate, Income Tax and CGT liabilities during the administration of an estate, estate income distribution, and the higher rate tax adjustment for pre-death income subject to IHT. Overall candidates performed fairly well on this question but a few candidates failed to attempt this question.

The CGT loss carry back was dealt with well by most candidates. However, when calculating the estate rate some candidates failed to bring in the CGT repayment despite having just calculated this in the first part of the question and even having mentioned that it should be included as an asset of the estate.

Accrued interest was also frequently missed from the calculation of the estate rate which, given that the final requirement of the question specifically referred to the higher rate tax adjustment required for income subject to IHT this, was a little surprising.

In calculating the CGT on the sale of a property by the executors, candidates consistently failed to use the gross assets of the estate in the denominator of the SP2/04 fraction and lost a half mark as a result.

Some candidates tried to apportion the estate income into 2024/25 despite the administration period ending on 30 April 2024, the ISA having been sold on 31 January 2024, the property having been sold on 31 March 2024 and all other assets having been distributed to Jane on 28 February 2024. The only income arising in 2024/25 was a dividend from ABC Plc dated 1 May 2024 which would fall to be assessable directly on the legatee - Jane.

Question 5

This question tested candidates' knowledge of Income Tax on a mixed trust and the application of s.80 IHTA 1984 on the death of a life tenant where the trust continued thereafter. High scores were achieved by a number of candidates with 2/3 achieving 50% of the marks but a few candidates failed to attempt this question.

The quality of answers for the first part of the question was very mixed. Some candidates ignored the mixed trust and ploughed on with calculations on the assumption that the trust was subject to the rate applicable to trusts throughout. Some candidates did attempt to split the income across the two different regimes but with varying success when apportioning the income, application of the differing treatment of the trustee management expenses and the resultant income distributions to the beneficiaries Mary and Tom.

The second part of the question was answered well overall. The exit charge was performed well by most but sticking points were 1) the value of assets held within the relevant property regime following Mary's death (deducting the IHT), the available nil rate band (candidates insisted on calculating this despite the value of Mary's PETs in the seven years before death being given in the question facts and therefore lost time and marks as a result), some candidates failed to gross up the actual rate.

Surprisingly, a large number of candidates spotted that $n-x$ was 3 being the completed quarters between commencement and "conversion" (being 39-36). However some assumed 39 quarters (taking the period from commencement).

Decimal places seemed to go slightly astray in some cases giving a skewed result for the exit charge that was evidently either too large or small.

Question 6

This question tested candidates' knowledge of Agricultural and Business Property reliefs in lifetime and on death including on successive transfers on the death of the spouses. Candidates generally performed well on this question albeit their answers were not very logically set out making them hard to mark and involving some subjectivity. All candidates attempted this question.

Some candidates failed to realise that only 50% Business Property Relief applies to property owned personally that is used by a partnership whilst others incorrectly restricted the Agricultural Property Relief on let land to 50% despite it having been let post 31 August 1995.

The availability of Business Property Relief otherwise due were it not for 100% Agricultural Relief taking priority was missed by a number of candidates. They sought to claw back relief for Ethan's use of the 1 November 2017 gift in his riding stables business operated in partnership with his wife whereas this was properly entitled to 50% Business Property Relief on Richard's death.

A number of candidates considered Diedre to be a retired farmworker's widow to allow the farmworkers cottage to obtain 100% Agricultural Property Relief. However, Richard never lived in the cottage and furthermore died whilst farming so not having retired.

Taxation of Larger Companies and Groups

General Comments

Overall performance on this paper was average. Most candidates scored highly on question 6 but many struggled with question 4. Some aspects of questions 1 and 5 also proved problematic. Candidates should read the requirement carefully to answer the specific question that is set, and avoid wasting time discussing irrelevant tax topics. Some candidates provided answers that were too brief and lacked the detail to gain all of the available marks on the areas they covered.

Question 1

This question concerned a UK company in a multinational group. Candidates were required to comment on the deductibility of the company's administrative expenses, calculate the amount of interest expense the company was able to deduct, and comment on the Corporate Interest Restriction (CIR) administrative requirements.

Overall, the question was answered well. Most candidates realised that certain administrative expenses were capital in nature, although most did not identify that the company had an investment business so the rules for expenses of management were relevant.

Most candidates wholly or partly explained and applied the CIR correctly. However, a minority of candidates misapplied concepts such as ANTIE and ANGIE or did not identify that those amounts could be readily calculated using the information in the question.

Candidates generally answered the CIR administrative element well.

Question 2

This question concerned a hotel company. Candidates were required to calculate and explain the capital allowances available to the company and calculate the deferred tax position in relation to vehicles.

The question was generally answered well, with most candidates identifying which expenditure was qualifying and applying the correct allowances. A small number of candidates did not lay out their

answers in the form of a conventional capital allowances computation which sometimes led to confused answers.

Most candidates attempted to explain the deferred tax position although many attempted to calculate the deferred tax for all assets, and not just the vehicles.

Question 3

This question concerned the sale of a company from one group to another. Candidates were required to explain the chargeable gains implications, the utilisation of trading losses and HMRC's enquiry powers.

The question was answered well. Regarding the chargeable gains element, most candidates correctly identified the incidence of a de-grouping charge and the relevance of the SSE to the share disposal. The losses element was also answered well, with most candidates commenting on the relevance of the MCINOCOT rules. Some candidates gave explanations of the loss-relief position prior to the sale of the company, which was not required.

Most candidates correctly explained HMRC's enquiry and discovery powers.

Question 4

Candidates were required to calculate, with explanations, the Corporation Tax payable by two companies, one of which was the 100% subsidiary of the other. Both companies incurred qualifying R&D expenditure. One of the companies was clearly large for R&D relief purposes.

This was not a well answered question. Many candidates did not identify that the two companies were linked for the purpose of R&D expenditure relief and therefore suggested both claim under the large company scheme. Some candidates failed to apply the "steps" for using the relief in the correct order. There was confusion between step one, setting against current period liability, and the restriction to net value, as set out at step two.

Question 5

This question concerned a UK headed multi-national telecommunication group with interests in a number of non-UK resident companies. Candidates were provided with information about shareholdings, activities, and financial data, and were required to explain how the UK's Controlled Foreign Companies legislation applied to the group.

The question was answered well for the most part. Most candidates correctly identified which of the overseas companies came within the legislation, and where the appropriate exemptions applied. None of the exemptions applied to one of the companies and therefore the profit gateways needed to be considered. In general, candidates dealt with the exemption rules much better than the gateway rules.

The main area where some candidates lost marks was consideration of what constitutes control for the purposes of this legislation, with candidates confusing the 25% shareholding required to be subject to apportionment, and the control tests.

Many candidates correctly stated that only one of the exemptions needed to apply to a company but having identified one such exemption, then went on to discuss why the other exemptions did not apply, which was not required.

Question 6

Candidates were required to calculate, with explanations, the Corporation Tax payable by a group consisting of two companies specialising in printer and office equipment. The question was generally answered well with candidates identifying and adjusting for most of the technical points.

The capital allowances were dealt with very well with candidates identifying which expenditure was incurred in the correct period and which assets were available for full expensing. Candidates also generally dealt well with the brought forward losses and the non-trade loan relationship deficits which were available to be group relieved.

Candidates coped less well with the loan relationships rules between connected companies and the reversal of previous write-offs. Pension spreading should have been straightforward given that candidates were given the excess contribution amount from an earlier period. The straddle period for the rate of tax was dealt with well, however, many candidates failed to identify that marginal relief was due.

Domestic Indirect Taxation

General

There were a range of answers to all questions, with some candidates performing very well, whilst others were clearly unprepared. It seemed fairly clear that some candidates did not study the non-VAT elements of the syllabus in any depth, hoping to pass on VAT elements only. We would not recommend this as a strategy. Repeating information provided in the question was also a common failing which will not gain credit and simply wastes the candidate's time.

The best candidates take their technical discussion and conclude in a practical and concise manner, taking into account factors such as contractual arrangements and potentially advising on alternative options.

Question 1

Candidates were asked to consider the options available to a golf club to recover VAT incurred on the construction of a new clubhouse at a projected cost of £3m (VAT £600,000), with the works spanning several tax years.. Candidates were expected to cover the suitability of the standard method; where applicable, the application of the standard method override; formulation of an alternative partial exemption method and finally, the implications of applying for a partial exemption special method.

Generally, candidates produced satisfactory and reasoned answers. Unfortunately, some candidates prefaced their answers by repeating the facts given, an analysis of the VAT status of supplies made by the club (which was provided) and covered the possibility that the clubhouse might be zero rated as a relevant charitable purpose building, with answers accompanied by an analysis of business/non-business activities and recent caselaw. No credit was given for such irrelevant material.

Most candidates identified the allocation of floor space to the club's activities as a suitable alternative to the standard method, highlighting HMRC's objections to it. In the context of the standard method override, some candidates thought that it applied to all input tax incurred on the works during the construction period; it does not, the calculation is based on the tax deductible under the standard method in a tax year compared to that recoverable under a fair and reasonable alternative method. Very few candidates considered a sectorised method; the sectors covering the operation of the golf course and the operation of the new clubhouse.

Question 2

This question required candidates to consider and conclude on whether Gary Bailey was employee or was a taxable person obliged to account for VAT on his services as a plumber. In so concluding, candidates were required to refer to supporting caselaw.

Since UK VAT law says nothing on the extent to which persons bound by a contract of employment or other similar legal ties are taxable persons, it was surprising that candidates did not refer to the Principal VAT Directive, particularly as during the relevant period in question, the Directive had direct effect. The essential point of the question is addressed clearly in the Directive. After 50 years, the VAT Directives and CJEU caselaw are firmly imbedded in UK VAT law and, while EU VAT law is not now supreme, it is highly probable that it will continue to be relevant for years to come as assimilated law under the 2023 Act . For that reason, candidates aspiring to be tax practitioners should have an awareness of its scope to better serve their clients.

Instead, candidates focused on the longstanding hallmarks applied by the Courts in concluding whether Gary was an employee or supplying his services under a contract for services as an independent contractor. Generally full answers were provided by candidates, enabling them to conclude on Gary's status. However, reference to supporting caselaw was very largely absent despite material available to candidates in the law manual (which candidates are expected to study as part of the Advanced Technical papers).

Question 3

This question required candidates to consider the VAT and SDLT implications of the transfer by Robert Palmer of a partly completed dwelling to a company controlled by him, Acorn Investments Limited. In return for the transfer, a personal loan of £80,000 taken out by Robert to fund the construction of the dwelling was assigned to Acorn.

In general, candidates dealt with the VAT aspects satisfactorily, identifying that ZZE's construction services were zero rated, that Robert had person constructing status and the sale by Acorn to the Delaines was standard rated. Candidates encountered difficulties when concluding on the status of Robert's supply to Acorn given the planning restriction.

The SDLT element represented two-thirds of the available marks, with candidates' performance in this instance poor. Far too many candidates proceeded on the basis that the transfer from Robert to Acorn was eligible for group relief despite Robert not being a body corporate. Few candidates identified that, as connected parties, SDLT was chargeable at market value (assessed as £220,000) on the chargeable transfer from Robert to Acorn, with SDLT chargeable at the higher rate. Finally, and very disappointing, just one candidate identified that Acorn could claim sub-sale relief.

Question 4

This question concerned a house builder incurring costs related to remediating cladding and covered input tax attribution and insurance premium tax considerations.

There was a range of responses to this question. Many candidates missed the key element of this question being in respect of the attribution of input tax and the various different supplies to which input tax may relate. The best answers identified this as a significant consideration and gained a number of marks discussing this topic.

Candidates generally dealt well with the insurance premium tax elements of the question, identifying which items were subject to insurance premium tax, and discussing well whether CompactHome Ltd was liable to account for this. However a number of candidates wasted time discussing the VAT treatment of the extended warranties when this was already given to them in the question.

Question 5

This question concerned an insolvency practitioner taking over a company in administration and various practical elements related to this role. It also tested the sale of shares and input tax recovery following the Hotel La Tour case.

Most candidates identified the need to discuss the various case law surrounding input tax related to share sales and discussed the various factors relevant to making a determination, such as the ultimate aim of Alan with the funds received. The best candidates went on to recommend an approach, and discussed the potential for clawback if the ultimate purpose changed from the initial intention.

Fewer candidates handled the administration elements as well. The question looked to test a number of high level practical considerations regarding administration and it would be expected that candidates have a basic understanding of the key considerations when taking over a business in administration.

Question 6

This question dealt with the provision of goods to influencers and celebrities, and whether these were deemed to be barter transactions, samples, or gifts of goods.

Most candidates dealt with this question well, and it was good to see candidates were abreast of hot topics in VAT. Most candidates provided good discussion of the various valuation considerations, including several relevant pieces of case law to help them conclude. The best candidates went on to comment on practical aspects, such as making recommendations for contracts or ensuring invoices are raised between relevant parties to allow for VAT recovery.

A number of candidates hedged their bets with the bloggers section of the question, covering the position for both a gift and a barter. In many cases, marks had already been given for the initial discussion and so repeating this was a waste of time for candidates. We will not examine the same point twice within a question.

Cross Border Indirect Taxation

General

Whilst this is a technical paper there will very often be a range of options available and questions are often written to test candidates' ability to set out options and recommend a course of action, rather than there just be one absolute answer. We are not expecting candidates to cover every eventuality but if there are valid alternative treatments, they should set these out and explain the one they think is most beneficial. Also, candidates often fail to score marks by advising on a course of action but not explaining why they are making that suggestion by explaining the pros and cons. Essentially there was little 'meat on the bones' of the technical position, which potentially demonstrated a lack of experience beyond the material set out in the manuals. .

In general terms candidates frequently dropped marks in questions 1-3 by not mentioning the need to consider the origin or classification of the goods being imported as part of the import process. Valuation rules were more consistently covered.

Question 1

This question covered the implementation of hardware units into various countries by branches of Tolich Ltd

The question was generally answered well by the candidates and they showed a good understanding of the VAT impact of the branch structure. Most candidates were aware of the rules relating to online training and the considerations to determine whether this is a general rule service or falls within the exceptions.

Question 2

This question tested two common supply chain scenarios for advisers, being an undisclosed agency structure and a contract with call-off stock provisions.

In relation to the concession in the department store, most candidates were aware that the department store would be selling in its own name and would be required to account for VAT on the full selling price, having purchased the goods at a lower value from the supplier. However some stated that a commission would also be charged to the supplier for agency services which demonstrated a lack of thinking through the economic impact of this ie that the department store would be paid twice if this were correct.

With regard to call-off stock, there was generally a low level of understanding that this is a commercial arrangement that still exists and is relevant despite Brexit and the fact UK suppliers cannot benefit from the EU simplification. Candidates were expected to consider the impact of the simplification not applying and what the resulting VAT treatment would be.

The time of supply element of this question in relation to the intercompany transactions was not dealt with well overall, with many candidates overlooking the impact of the rules applying when invoices and payment are not present for cross border intercompany transactions. This is a very common commercial scenario.

Question 3

This question concerned supplies by a profit making sports company entering the UK market.

The question was generally answered well with the key technical points being picked up by most candidates. The majority understood how to analyse the 'revenue share' arrangements.

Question 4

This question covered a cross border transfer of trade.

Some candidates dropped marks for not commenting on VAT grouping eligibility in the context of the transactions taking place. The majority of candidates picked up on the fact that tangible goods were transferring cross border as part of the TOGC and were able to comment on possible reliefs for duty and import VAT.

Several candidates mistakenly thought that an exempt share **purchase** would lead to irrecoverable VAT on costs – clearly confusing the position with an exempt **sale** of shares. Good awareness of VAT recovery rules where holding companies are involved.

Question 5

This question on RGR mainly tested whether the candidates understood the different rules which might limit the ability to claim relief from Import VAT as well as relief from Customs Duty.

Unfortunately, the majority of candidates did not understand that the rules are different and most applied either the Customs Duty, Import VAT or a third incorrect set of rules (e.g. with incorrect time periods) to both intended transactions.

A lot of candidates seemed to consider RGR a Special Procedure and wrote about the need to apply for authorisation etc in the same way as Processing etc. RGR is a relief that is claimed by entering the correct codes on the Customs Declaration and no prior authorisation is needed.

Question 6

This question tested candidates' knowledge of GB–NI movements of goods under the Northern Ireland Protocol and direct imports into Northern Ireland from outside the EU and UK, the concept of whether goods are “at risk” and the implications of that status.

Candidates generally performed very badly. They seemed to have little knowledge of the concepts and what they did have was muddled. Most seemed to think that “at risk” was simply a question of whether the NI-purchaser (Poirhast Ltd) intended to sell the goods in NI or sell them onto the EU (rather than a set of objective tests depending on the situation). This meant a lot of candidates gave the same answer for all scenarios or for every product said “if the goods are at risk of moving to the EU, the EU Customs Duty rate must apply, if not use the GB rate” without stating whether the goods were at risk.

Only about half of candidates seemed to understand that for GB - NI movements of goods export declarations are not needed in GB but import declarations are needed in NI. It was not generally understood that there are special arrangements for the VAT treatment of GB – NI movements of goods. A high proportion of candidates thought the EU-GB preference agreement meant that the only GB-NI movements which could attract Customs Duty were those of non-GB originating goods. Most candidates who mentioned TSS said that the traders must use TSS. Of course, TSS is free to use, so it makes sense to use it but it is not compulsory.

Only a couple of candidates said that the import declaration into NI had to include a statement that goods were or were not “at risk”. Only a couple of students mentioned UKTS (or UKIMS) and those that did were not able to explain it properly in relation to the scenarios given.

Despite the requirement setting out that there were 17 marks for Customs Duty and 3 for VAT a fair number of candidates wrote as much for VAT as they did for Customs. Several copied and pasted their first answer for VAT and included it against each product

APPLICATION AND PROFESSIONAL SKILLS

Taxation of Owner Managed Businesses

General Comments

The requirement was to advise a client on the negotiation of the sale of his business when the purchaser had expressed a preference for a purchase of the trade and assets of the company. The key issue was, given the purchaser's preference, how could the situation be improved from the client's point of view?

Candidates' performance was mixed. Most candidates were comfortable with the core topics in the question. They dealt well with the comparison between a trade and assets sale and a sale of the company shares. The computations to back up the calculation of the net cash available under each option were generally reasonable. Most candidates reached the conclusion that the client would be better off with a share sale.

However, candidates frequently did not go on to address how a share sale could be made more attractive to the purchaser, or how the outcome of a trade and asset sale could be improved for the seller.

Some candidates wasted time discussing irrelevant issues such as the use of an employee ownership trust or a management buy-out. Similarly the targeted anti avoidance rules were also discussed, when it was clear that the client had neither the wish nor expertise to set up a similar company in the future.

Structure

The quality of Structure was generally high. Those few candidates who failed Structure did so due to a lack of clarity in the language used.

The main issue was failure to produce an appropriate executive summary which focused on the key recommendations. Some candidates produced a summary of every paragraph in the report rather than giving an overview of what the advice to the client actually was.

Identification and Application

Options for sale

Most candidates scored well in this topic, outlining the two main options. Some candidates also identified that a hive down was an option.

Trade and asset sale route

This topic was covered well, with candidates producing appropriate computations of the gains and losses on the individual assets, the additional corporation tax due and the net cash available for distribution.

Extraction of funds

This topic was less well answered, with many candidates only considering the liquidation route. Extraction by salary or pre-tax dividend also needed to be considered, even if only briefly before

concluding that they were not appropriate. Some candidates unnecessarily discussed the client's current remuneration strategy.

Reducing tax liabilities with a trade and asset sale

Many candidates did not consider potential ways of reducing the tax on a trade and asset sale. There were different treatments of the potential loss on the investment which had become of negligible value, including some candidates stating that, as it had been written off, it was not relevant. Many candidates recognised that there was a procedure to fix the value of the fixtures in the buildings, but did not apply this to the question and consider the impact of different values.

Share sale route

This topic was generally dealt with well, although very few candidates considered the potential of other forms of consideration such as the use of qualifying corporate bonds.

Ways of encouraging a share sale

Many candidates picked up that warranties and indemnities might be used to reassure the purchaser. Candidates who scored well on this topic also considered a hive down - in view of the level of expected knowledge on this topic in APS, a brief consideration was sufficient to score well.

Relevant Advice and Substantiated Recommendations

Trade and asset sale, including reducing tax liabilities

Candidates scored well on this section, picking up on the key points. As mentioned above, fewer candidates went on to consider ways of reducing the potential tax under this route.

Extraction of funds

Candidates generally scored well in this section. However, some failed to address options other than liquidation and the reasons that they were not advisable.

Share sale and encouragement thereof

Candidates performed less well in this section. Many candidates missed the possible use of a hive down, though this was not required to score a passing mark. However, candidates also frequently didn't consider other ways to encourage the purchaser to consider a share sale, even just mentioning that it might be worth considering a lower price.

Taxation of Individuals

General Comments

The scenario involved a UK resident employee holding EMI share options retiring from work due to ill-health, and associated tax issues.

Candidates' knowledge and understanding relating to EMI share options and the associated tax advantages was good. Knowledge and understanding relating to the other issues covered of withdrawing funds from a company and pension contributions was surprisingly weak, as these are fairly mainstream issues. There were fewer 'excellent' papers compared to previous sittings, with the bulk of passing papers relying on scoring strongly on the EMI section.

Although this paper is more than just a test of tax knowledge, candidates will find it difficult to identify issues and make relevant recommendations if they don't have the underlying technical knowledge.

Structure

On the whole, candidates had no issues with structuring their report to consider each issue in turn and then make relevant recommendations. One weakness in the report structure was a tendency for some candidates to write very long executive summaries, with some candidates almost writing out the whole report twice, once in the summary and once in the body.

Identification and Application

Termination Payment

Most candidates simply said that the first £30,000 is exempt and the remainder of the payment taxable. Additional credit was given to candidates who identified that different tax treatment applies either to a payment on retirement, or a payment due to ill-health.

Employment-related Securities

Candidates showed good knowledge of the tax benefits of EMI share options. This enabled candidates to correctly identify specific issues arising from the scenario, such as part-time working and loss of BADR on leaving the employment, and gain marks for identifying the issue even where they did not necessarily come to the correct conclusion on its tax treatment.

Pension Contributions

Most candidates realised that pension contributions would be limited by relevant income, as well as the available allowance brought forward from previous years. There seemed to be a surprising lack of understanding among some candidates that funds contributed to a pension are simply exempt from tax – the addition of 20% and grossing up of the tax bands is just the mechanism for ensuring no tax is paid on the pension contribution.

Very few candidates thought through the scenario sufficiently to consider that pension contributions could mitigate any additional tax due on the EMI options.

Loan to SM Rental

This caused some confusion among weaker candidates, who discussed issues that were not relevant, such as tax relief for interest paid on a loan to a close company.

Income going forward

The 25% tax-free portion of pension withdrawals was generally considered. Many candidates assumed that any funds withdrawn from SM Rental would be paid as dividends, or additionally considered

salary but not interest. Where payment of interest was discussed, the starting rate for savings was rarely considered.

Relevant Advice and Substantiated Recommendations

Whether to take termination payment and when to leave Tea and Biscuits

There were several possible permutations relating to whether Sarah should leave her employment or continue to work part-time, and when to exercise her share options. Candidates made various different recommendations, there was no one correct recommendation and credit was given for clear advice given based on the issues identified.

When share options should be exercised

As with the previous section, there was no one correct recommendation to make. Candidates generally did make clear recommendations in relation to the termination and share options.

Whether to make a pension contribution or lend funds to SM Rental

Again, candidates generally made a reasonable recommendation here, the most common recommendation was to make a pension contribution to the maximum that would receive tax relief, and lend the remainder to SM Rental. Some candidates went on to discuss other issues at length, such as whether Sarah should sell the rental property which was not required.

Other recommendations relating to drawing future income tax-efficiently

Candidates made recommendations based on their identification of sources of income Sarah could take from SM Rental, and the possibility of withdrawing funds from her pension.

Inheritance Tax, Trusts & Estates

General Comments

The question required a report to be prepared to advise the executors and trustees of the estate of Lucy Reed in relation to the tax consequences of a compulsory acquisition of a quoted shareholding, the proposed sale of a property and the transfer of shares in the family company to Lucy's daughter.

Better prepared candidates provided a good answer to the first two parts of the question and were able to provide some basic advice in relating to the CGT and IHT aspects of the sale of the quoted shares and the proposed sale of the property. However, it was clear that many candidates were confused as to how an estate capital loss could be utilised, and although it was evident that many were aware there were different tax consequences on distribution of assets from a discretionary Will trust within two years of the death, many candidates were unclear on the exact implications for IHT and CGT purposes.

In the final part of the question relating to the transfer of shares in the family company to Lucy's daughter, many candidates suggested this be achieved through a Deed of Variation (DOV). However, since the Will Trust had minor beneficiaries this route was not available without a Court application. These candidates veered off on a tangent explaining the requirements for a valid DOV and the

subsequent IHT and CGT consequences - they completely failed to advise on the timing of the transfer and the connected IHT exit charge and CGT holdover relief issues.

The final part of the question also required an analysis of the company's financial information for IHT business property relief (BPR) purposes and it was pleasing to see that most candidates were able to explain the qualifying conditions and reach a conclusion on this point.

Structure

Nearly all candidates produced their answer in a suitable report format and most included an introduction, an executive summary plus supporting computations within their appendices.

As has been the case in previous exam sittings, many candidates spent time providing unnecessary details relating to the trustees' requirement to complete the online Trust Registration Service, the process for registering for self-assessment and details of how the trust's income would be taxed, none of which were particularly relevant to this question.

Identification and Application

Identify and calculate the capital loss on the disposal of the shares in Honey Group plc and recognise it is an estate loss. Identify and calculate the IHT loss relief and refund available.

Nearly all candidates were able to quantify the capital loss arising on the sale of the shares in Honey Group plc, but not everyone recognised that this was an estate capital loss which could only be set against estate capital gains - it could not be transferred to the Will Trust.

Many, but not all of the candidates who attempted the question, also recognised that the executors were able to claim IHT loss relief as the quoted shares were sold for less than their probate value within the required timescale and calculated the IHT refund available.

The question facts stated that the IHT liability arising on Lucy's estate was settled from the proceeds of an insurance policy. This seemed to cause confusion with several candidates who commented that the IHT refund resulting from the loss relief claim would have to be repaid to the insurance company concluding incorrectly that the loss claim was not worth pursuing by the trustees.

Identify and calculate the capital gain and principal private residence relief due on the sale of Lavender Cottage by the trustees and the additional funds to be transferred to Jessica from the cash account. Calculate the IHT exit charge on the £90,000.

Most candidates were able to correctly calculate the gain arising on the sale of Lavender Cottage by the trustees. The majority also recognised that principal private residence relief (PPR) was available to reduce the gain to nil as Charlotte lived in the property until the end of January 2024 and the remaining period of ownership fell within the final 9 months of ownership, so was a period of deemed occupation for the purposes of the relief.

It was also pleasing to see that nearly all candidates were able to put together a correct layout for the calculation of the IHT exit charge arising on the transfer of funds to Jessica.

Common errors in the exit charge calculation were forgetting to deduct the estate liabilities (provided in Exhibit E) from the initial value of the assets and not grossing up the IHT charge to reflect the fact that the trustees were settling the tax. In addition, several candidates who were aware that a

distribution of assets within two years of death from a discretionary will trust would not result in an IHT exit charge under s144 IHTA 1984, incorrectly calculated the number of quarters in their calculations, as they only counted the quarters that had passed between 15 June 2024 (the two year anniversary) and the exit date.

Identify and calculate the CGT for the trustees on appointment of Lavender Cottage to Jessica and Jessica's personal CGT on the sale of the property. Recognise no IHT exit charge and no holdover relief is available if appointment is made before 15 June 2024.

Very few candidates were able to correctly advise on both the CGT and IHT issues arising on the appointment of Lavender Cottage to Jessica.

Most were aware an appointment to Jessica before 15 June 2024 would not result in an IHT exit charge due to s144 IHTA 1984. However, many candidates either considered this provision applied for CGT purposes as well, or that CGT holdover relief was available under s260 TCGA 1992 despite the fact that they had already recognised that an exit charge would not arise.

This meant that when the candidates subsequently calculated Jessica's personal CGT position on the sale of Lavender Cottage, their figures were incorrect as they used the probate value as her base cost, although it is worth noting that most were aware that in the scenario they had created, Jessica would not be entitled to PPR relief and a 60 day CGT return would be required.

Calculation of the additional funds the trustees need to appoint to Jessica in October 2024 and calculate the IHT exit charge arising.

The knock-on effect of the errors made in the previous part of the question, meant that many candidates incorrectly calculated the funds the trustees needed to transfer to Jessica as they had to account for the additional CGT calculated.

Most candidates were aware that the appointment of the cash would result in an extra IHT exit charge and applied the correct principals to calculate this. Many candidates also referred to the IHT reporting forms and payment dates that the trustees needed to be aware of.

Recognise a Deed of Variation is not available and identify the differing IHT exit charge positions on an appointment of shares in Floral Scents Ltd to Charlotte before and after 15 June 2024.

As referred to above, many candidates were not aware that a Deed of Variation ("DOV") would not be a viable option without court approval for the trustees because there were minor beneficiaries involved. Unfortunately, this meant they concentrated on advising on the IHT and CGT impact of a DOV and did not consider or comment on the fact that an appointment of shares to Charlotte before 15 June 2024 would not trigger an IHT exit charge.

Analysis of the company's trading and investment activities for IHT BPR purposes.

Of the candidates who were aware that an IHT exit charge would be triggered if the appointment to Charlotte was delayed until after 15 June 2024, nearly all provided a good analysis of the company's activities for BPR purposes.

Candidates who went down the DOV route were aware that there was a reason why the company's financial information had been provided in Exhibit D and a large number of them also provided a BPR analysis but more for the purpose of confirming that BPR was available when Lucy died.

It was pleasing to see that most candidates were aware of the basic conditions for BPR, and in particular, many pointed out that BPR would not be available if contracts were put in place to sell the company's shares. In addition, most candidates provided a reasonable analysis issues that needed to be looked at to establish if the company was "wholly or mainly trading".

A small number of candidates considered the flats over the retail premises to be excepted assets and stated that the BPR claim should be restricted but the majority correctly concluded that 100% BPR would be available on the shares.

Identify and calculate the CGT liability arising on the appointment of shares in Floral Scent Ltd to Charlotte. Recognising when holdover relief is available and analysis of whether the company's investment activities are substantial for CGT purposes.

The CGT consequences of the appointment to Charlotte was badly dealt with by most candidates demonstrating a clear lack of understanding of the interaction of IHT exit charges and CGT holdover relief.

Most were able to calculate the CGT liability arising on the appointment to Charlotte but very few considered the availability of CGT holdover relief and of those who did, only a handful deliberated on whether the company's investment activities would be substantial for CGT purposes and therefore preclude a claim for holdover relief under s165 TCGA 1992.

Candidates who went down the DOV route failed to consider CGT holdover relief at all, and many provided detailed advice to Charlotte on obtaining and retaining Business Asset Disposal Relief on her shareholding instead, which was in the main irrelevant to the question.

Relevant Advice and Substantiated Recommendations

Recommendations to the executors on the availability of IHT loss relief instead of claiming an estate capital loss.

This recommendation was dealt with reasonably well and a large number of candidates correctly advised that that claim for IHT loss relief should be made. Candidates should remember to fully advise clients when they state claims should be made by providing deadlines for submission of claims to HMRC and confirming the tax refund due.

Advice and recommendations on the sale or transfer of Lavender Cottage by the trustees or the transfer of Lavender Cottage to Jessica and onward sale by her to the third party purchaser.

Due to either misunderstanding the scope of s144 IHTA 1984 or believing that CGT holdover relief was available where there was no IHT exit charge, many candidates incorrectly recommended that it would be better for the trustees to sell Lavender Cottage themselves instead of transferring the property to Jessica.

There were also a sizable number of candidates who had not read the question properly as they suggested that the trustees should transfer the Lavender Cottage and appoint funds to Jessica before 15 June 2024 to avoid all IHT and CGT charges. This option would not be possible as the Exhibit A stated that the trustees had bills to pay on Avenue House at the end of May 2024 and Exhibit B stated that no withdrawals were available from the fixed rate account until 15 September 2024, leaving insufficient funds across the trust bank accounts for this suggestion to be workable.

Advice to the trustees on the availability of IHT BPR on the shares in Floral Scents Ltd.

Most candidates were able to provide helpful advice to the trustees on the availability of BPR on the shares in Floral Scents Limited, although in some cases the advice was provided for the wrong reason such as confirming that Lucy's estate qualified for the relief and a DOV would not generate additional IHT charges.

Advice to the trustees on the availability of CGT holdover relief on the shares in Floral Scents Ltd and recommendation on the timing of the transfer to Charlotte in view of the IHT and CGT considerations.

Many candidates provided no recommendation on CGT holdover relief as they did not consider this aspect at all.

Of those who did provide a recommendation, in many cases it was incorrect as the timing issues of the IHT exit charge before and after 15 June 2024 and the interaction with CGT holdover relief had not been taken into account or alternatively, where CGT business asset holdover relief was referred to, the company's investment activities were not considered, despite candidates having already reviewed these for IHT purposes.

Taxation of Larger Companies and Groups

General comments

The question set a scenario whereby a listed company sought tax advice on a proposed acquisition. The acquisition to be undertaken was either of all the share capital of a target company or of all its assets. It was proposed that the underlying assets would be transferred (on a share acquisition) to, or acquired directly (on an asset acquisition) by, two existing subsidiary companies of the client company, one of which was UK tax-resident, the other tax-resident in a fictitious foreign country. Candidates were required to write a report for the Board of the client company on the tax issues arising, with recommendations on how to deal with those issues.

Candidates had to identify the issues arising from the scenario, rather than being told which issues to address. Although the client described how they intended to structure the acquisition and how the post-acquisition re-structuring would be undertaken on a share acquisition, candidates were able to make recommendations for different approaches.

Most candidates successfully identified most of the relevant issues. However, some candidates failed to utilise all the information provided in the question which resulted in issues being missed or not well explored. Other candidates wasted time by ignoring the information presented in the question and discussed irrelevant issues without specific reference to the facts.

Some candidates failed to discuss an issue because more information than provided in the question was required. Several issues did not have definite right or wrong answers (such as the availability of losses, the residence and CFC status of the offshore subsidiary) and candidates were assessed by reference to the depth and quality of their discussion of potential issues and how conclusions were reached.

In giving recommendations and advice, some candidates failed to consider whether the client's proposed approach would provide the best tax outcome for the client, and thus failed to identify and suggest a better alternative option.

Structure

Most candidates produced an answer that complied with the requirement to produce a report, and almost all were in an appropriate format with an introduction, executive summary, and main body of report. Most candidates set out their conclusions and recommendations in the executive summary only, which avoided repetition. Some candidates also repeated the same conclusions in the body of the reports, which was unnecessary and although not penalised, would have wasted time.

A few candidates included lengthy preparatory notes in their script. While preparation is important, time spent typing up notes might not be well spent.

Many candidates separately addressed a share acquisition and an asset acquisition and the tax issues arising under each method. An alternative approach was to identify the issues, and then discuss each issue in turn by reference to the share or asset acquisition method. Either approach was acceptable.

Identification and Application

Most candidates identified the following five issues.

Tax relief on purchase price - assets or shares

Every candidate addressed this issue, though often not comprehensively. Tax reliefs on various elements of purchase price were sometimes overlooked and overall comparisons were often incomplete or absent.

Tax status of Abertol Farland Ltd

This issue was often dealt with superficially. While most candidates identified possible CFC issues, many failed to consider a possible change of residence, and differences between old and new royalty receipts. Many candidates unnecessarily discussed the mechanics of royalty payments, withholding taxes, and transfer pricing.

Potential new losses in Abertol Manufacturing Ltd (AML)

This concerned the deductibility of court fines, legal expenses and remediation costs arising in the US for breaches to import restrictions that had been recharged to AML. Most candidates disallowed the fines, and many also disallowed the associated legal costs. Disappointingly few candidates explored how the expenses could have a different nature in the UK, and might be tax-relievable trading expenses.

Identity of trades and availability of losses

This issue produced a wide range of responses. Most candidates identified the "major alteration" aspect but few candidates discussed the identity and continuity of the various trades, and thus the admissibility of losses carried forward. Many candidates successfully mentioned the imported loss and carry forward loss restrictions.

Indirect taxes- Stamp duties and VAT

Most candidates successfully identified the different stamp duty and VAT consequences of a share purchase and an asset purchase. The majority also produced correct calculations of the stamp duties, although many failed to calculate correctly that 0.5% of £200 million is £1 million rather than £10 million. Those who miscalculated this figure then miscalculated the overall tax impacts which distorted the decision making.

Relevant Advice and Substantiated Recommendations

The majority of candidates produced definite advice and recommendations. A few, however, gave “either/or” suggestions and so failed to provide clear recommendations.

Buy shares or assets

This was addressed by virtually all the candidates. Many gave cogent, balanced arguments to support their advice. The better candidates took into account all of the evidence as set out in the body of the report rather than taking into account just one or two factors that supported the position taken.

Whether to merge trades of Abertol Manufacturing Ltd and e-Boxes Ltd

The merger of trades was a stated intention in the client’s instructions. Some candidates took this as an immutable statement of fact and failed to address whether it was advantageous or necessary. Others undertook a review of their findings under “Issues” to reach a conclusion and advise the client accordingly. Some effectively addressed the issue by recommending retaining e-Boxes Ltd as a trading entity, although sometimes then gave uncommercial advice to defer the operational reorganisation (to be undertaken for commercial gain) in order to gain tax advantages.

Whether Abertol Farland Ltd should buy the intellectual property

This was another client stated intention. Many candidates considered alternative approaches, driven by the availability of IP tax relief in the UK, and made alternative recommendations. Some also correctly compared the wider picture of CFC issues and IP tax reliefs to reach their conclusions.

VAT and Other Indirect Taxes

General Comments

This question concerned acquisition by the client of the business of Targera Ltd, a designer and licensor of video games, whose shareholders were Charlie and Gabriela Krell. The client, ABundle Ltd, whose majority shareholder was Bernie Krell, Charlie’s brother, supplied online gambling. Targera Ltd had ceased to be profitable with tax losses for 2023/24 but Charlie was engaged in developing a new product involving virtual reality technology (“Project Z”). However, he and Gabriela wished to sell the company and retire to Spain. Candidates were required to write a letter to Bernie/ ABundle Ltd advising on the tax issues raised and recommending how best to structure the acquisition, including exploiting Project Z and remunerating Charlie for his input. Neither Charlie nor Gabriela were clients. The taxes to be considered were VAT, Corporation Tax, SDLT and Stamp Duty, whose impact would depend on how the acquisition was structured.

Structure

The answers required was a letter to the client which was clear, well-written in an appropriate style and free of irrelevant material or padding. Almost all candidates passed on Structure.

In some scripts the answer did not flow logically from one topic to the next. This made for difficult marking. It is much easier to read an answer which gives a general introduction (with or without an executive summary) and concludes with a single section providing the adviser's conclusions and recommendations. Some candidates, however, scattered their "conclusions" throughout their answer.

Conclusions were not always consistent with their opening summary.

Some answers were far too long. This was often the result of repetition, including irrelevant material or expanding on the personal tax position of Charlie and Gabriela Krell (who were not clients). Producing such a long script cannot have left adequate time for checking and editing.

Identification and Application

This skill involved analysing the factual background, identifying the likely tax issues, and applying technical tax knowledge to the proposed business acquisition. It was pleasing that all candidates identified the two routes for structuring a business acquisition, namely asset purchase or share purchase. VAT was a key issue given that the client was not VAT-registered but the target was. Most candidates distinguished between purchasing selected assets or acquiring all the assets and, in the latter case, identified when a TOGC for VAT purposes could arise. TOGC conditions were generally well-understood. VAT registration requirements were also generally understood, though not all candidates spotted the opportunity for the client to incorporate a Newco to acquire the business and VAT-register as an intending trader. VAT exemption of a share sale and the charge to Stamp Duty at 0.5% were generally well-understood. The rules governing deductibility of input VAT were covered in most answers, although some candidates did not always consider who was supplied with a particular service.

Regarding the VAT treatment after acquisition, most candidates explained the impact of the reverse charge on consultancy fees/ royalty payments made to Charlie/ Gabriela in Spain. It was disappointing that several candidates did not address the VAT treatment of supplying online gaming (electronic services) to non-business customers resident in the EU and use of an OSS registration.

Some candidates were unfamiliar with the time limits which govern historic VAT claims, although they were not penalised as this aspect featured only as part of the factual background to Targera Ltd.

Candidates identified that SDLT might be an issue if the office lease was assigned. However, most candidates confused grant of a lease with an assignment. They advised that SDLT was due on for the latter when, in fact, the chargeable consideration for the assignment was within the nil rate band. A few candidates picked up the point that there could be a TOGC without the client also acquiring the office or vehicle leases.

As regards Corporation Tax, most candidates identified chargeability and a potential claim for capital allowances and AIA. Few candidates, however, addressed the issue of deductibility of expenses e.g., acquisition costs or the lease assignment premium. Some candidates failed to answer the client's concerns about acquiring Targera Ltd's losses. For those who did, the anti-avoidance rules governing group relief were tolerably well-understood. Few candidates seemed aware of terminal loss relief.

Relevant Advice and Substantiated Recommendations

This skill involved weighing the options, giving correct technical advice, recommending the best course of action for the client and, where appropriate, having regard to commercial points, law and ethics.

About half of candidates recommended the asset purchase route (as per the Suggested Answer). Others preferred the share purchase route. Credit was given for either route and for other realistic and commercial suggestions, provided they were supported by appropriate reasoning.

It was striking that the stronger candidates gave positive advice and answered the client's questions. Weaker candidates, however, showed a tendency to give generic advice on the tax in question, while failing to weigh the factual background and reach a conclusion. This left the client unsure about what course to adopt, e.g., whether the conditions for a TOGC were satisfied or whether ABundle Ltd could claim group relief for Targera Ltd's losses. Some candidates gave lengthy explanations about e.g., blocked input VAT on motor vehicles, partial exemption special methods and MTD. These topics were premature or of peripheral relevance.

Some candidates offered detailed calculations based on assumptions they had made about matters such as share price or the value of goodwill. These calculations, however, were of little value. This was not a computational question and the client had stated that valuation advice was not required. This comment underlines the importance of reading the question as well as checking the answer.