

## **NOVEMBER 2024 EXAMINERS' REPORTS**

### **CHIEF EXAMINER'S COMMENTS**

This session it was pleasing to see good pass rates across all the Advanced Technical and Application & Professional Skills papers.

#### Awareness Modules

It was however noticeable that the pass rate for the Awareness modules has continued to decline with a pass rate of only 56% this session. The performance in the VAT module, which has the most candidates, was significantly weaker than in past sessions. Whilst performance across the modules varies from session to session, no modules had particularly good performance this session.

#### Advanced Technical Papers

The comments from examiners on the Advanced Technical papers show familiar areas where candidates fell down or could improve:

- 1) The Advanced Technical questions will always have some marks that are easier to score. Candidates should therefore try to identify these marks. In particular, spending additional time on a question to gain the final marks to the detriment of another question will rarely be beneficial.
- 2) Answers were sometimes too vague and failed to relate comments to the question or were too superficial.
- 3) Candidates should take time at the start to carefully read the question and the requirement to ensure that what follows is directed to the question.
- 4) Candidates shouldn't waste time regurgitating the question.

#### Application and Professional Skills

There were no particular issues with the way candidates structured their answers.

However, examiners did comment that some candidates had a fundamental lack of knowledge of the syllabus. Although this isn't primarily a technical paper, to score well in Identification and Application, candidates do need to have a good knowledge of the syllabus, including the Awareness level topics added to the main Advanced Technical paper content. Where candidates sit this paper in a separate sitting to the associated Advanced Technical paper, it is therefore important to go back and do the same level of learning as for the Advanced Technical paper and then add on the Awareness content to ensure that the background technical knowledge is sufficient.

In relation to skills, it is important that candidates do appreciate that this is the focus of the paper. Close reference to how we score answers is therefore vital for candidates (see the Student area of the website: <https://assets-eu-01.kc-usercontent.com/220a4c02-94bf-019b-9bac-51cdc7bf0d99/83da1830-a64a-4a92-ad5e-e3a5543c0b9b/The%20Marking%20of%20the%20APS%20Paper.pdf>)

## **AWARENESS**

### **Module A – VAT including Stamp Taxes**

#### General Comments

In general candidates performed less well on this module than normal.

Candidates are reminded to read the question carefully, as generally it will state whether the figures given are VAT inclusive or exclusive and they should answer accordingly or they will lose marks.

#### Question 1

The most common error was in relation to the mileage claim, where most candidates took 1/6 of £270.

#### Question 2

Very few candidates scored well on this question, which is surprising as compulsory registration under the historic test is regularly examined. The question specifically asked for the date by which the trader should have notified HMRC of the requirement to register for VAT, which is within 30 days of the threshold being exceeded, so 30 March. Some candidates stated the rule, some stated 'the end of March' and others stated 31 March, none of which earned the mark available. The pre-registration input VAT was often either omitted or calculated incorrectly.

#### Question 3

Generally well done. The question did not state whether the instalments were to be paid monthly or quarterly, so credit was given under either assumption.

#### Question 4

Generally well done, although candidates are reminded that there is a difference between zero rated and exempt. Candidates should answer the question asked and not make assumptions; for example, some candidates stated their assumption that the cookies were covered in chocolate and therefore standard rated (which cost them the mark).

#### Question 5

This question was often omitted and when attempted, was generally done either very well or very badly. There was some confusion with taxes over the chair, with some candidates stating that it was exempt under the £6,000 chattels rule. The second-hand scheme was generally better known than the global scheme, although the two schemes were often confused.

#### Question 6

Although most candidates managed to score a few marks with this question, it was rarely well done. Very few candidates picked up on the fact that no invoices needed to be issued, and some candidates suggested that the service be split into two invoices to get them both under the £250 limit to issue a simplified invoice.

### Question 7

The most common errors were including the rental income in the fraction, not rounding the fraction at all (or rounding it down) and failure to consider the de minimis test. Where the de minimis test was performed, many candidates performed the £625 test on supplies rather than input VAT.

### Question 8

Most candidates did well on the first part of this question, but many struggled with the second part. Some thought that including the overseas and/or the dormant company would make the group partially exempt, and several stated that the dormant company must leave the group and deregister for VAT as it was no longer making taxable supplies, failing to appreciate that the group is a VAT registered single entity.

### Question 9

The most common errors were failing to round the partial exemption percentage for 2024 and using an adjustment period of 10 years rather than 5.

### Question 10

No comments.

### Question 11

No comments.

### Question 12

A surprising number of candidates added together the premium and the net present value of the rent and did one calculation of the SDLT.

## **Module B – Inheritance Tax, Trusts and Estates**

### General Comments

Generally, there was a satisfactory performance by most candidates.

### Question 13

The answers to this question were mixed, with some excellent answers but far too many poor ones. Some candidates seemed to believe that IHT only applies to gifts, not sales at undervalue and others wrote about the CGT implications. Some stated that Alice could use her RNRB on the house and/or stated that the clock was an exempt transfer as it qualified for the small gifts exemption.

### Question 14

Some candidates appeared to be unaware of the related property rules. A marriage exemption of £5,000 rather than £2,500 was often deducted.

### Question 15

Some candidates thought that the spouse exemption was limited to £325,000, despite both husband and wife not being domiciled in the UK.

#### Question 16

Answers to this question were generally poor. Several candidates calculated lifetime IHT on both transfers despite the amount of the gross chargeable transfer being given for both. Fall in value relief and lifetime tax were regularly deducted in the wrong place and taper relief often omitted.

#### Question 17

Several candidates seemed to miss the fact that the business concerned was a partnership and wrote about BPR in relation to companies.

#### Question 18

Answers to this question were mixed. Several candidates did not calculate the net chargeable estate or calculated it incorrectly. Common errors included deducting the RNRB and not adding back the charitable legacy.

#### Question 19

The conversion of the foreign currency into sterling frequently caused problems, with some candidates not converting at all or doing it incorrectly. Some candidates stated that Jacob (the deceased) was liable to pay the IHT on the villa.

#### Question 20

No comments.

#### Question 21

This was the most omitted question on the paper. Where it was attempted, most candidates did not provide a clear or detailed enough explanation to score well.

#### Question 22

This question was frequently omitted, although when attempted there were some excellent answers. Weaker candidates did separate computations for the free estate and the settled property.

#### Question 23

No comments.

#### Question 24

No comments.

## **Module C - Corporation Tax**

### Overall comments

Overall, most candidates had a good awareness of the syllabus. Candidates were less likely to attempt the written questions, seeming to prefer the computational questions.

### Questions 25-28

Almost all candidates performed well in these questions. Common problem areas included the calculation of marginal relief (25); pensions and car adjustments (26) and proceeds on disposal (27).

### Question 29

Quite a few candidates did not attempt this question and of those that did, many did not seem to be familiar with the rules. There seemed to be some confusion with income tax rules with some restricting loss relief by reference to the individual's percentage shareholding or to £50,000 (see also Question 33).

### Question 30

Most candidates performed well. Common errors were to deduct the capital loss and the overseas property business loss from current year total income.

### Question 31

Some candidates struggled to identify the common period.

### Question 32

Not all candidates were comfortable applying the rules for close company loans.

### Question 33

Although most candidates recognised that rollover relief could be claimed, many failed to calculate it correctly. Some candidates referred to business asset disposal relief.

### Question 34

Many candidates did not attempt this question. Of those that did, most showed a good knowledge of the degrouping rules.

### Question 35

Approximately 1/3 of candidates did not attempt this question. Those that did struggled to fully explain their answers.

### Question 36

Most candidates performed well in this question.

## **Module D – Taxation of Individuals**

### General Comments

In general, candidates performed less well on this module than normal.

### Question 37

The most common error was to forget the starting rate band for savings income. Several candidates deducted the savings allowance to arrive at taxable income rather than it being part of the tax bands which lost them a mark.

### Question 38

Very few candidates scored full marks on this question, the most common error being in the calculation of the receipts. The cost of the lease extension and related legal fees were regularly treated as allowable revenue costs rather than capital. Not deducting the loan interest was worth a mark, which many candidates did not get as they simply ignored it, despite the requirement of the question asking to clearly show the treatment of each item.

### Question 39

There were some excellent answers to this question where the candidates had clearly learned the rules, but most of the answers were too brief. Candidates need to make sure that the answer that they produce not only addresses the requirements of the question, but that it looks like it is worth 5 marks, which a one-line answer clearly is not.

### Question 40

It seemed as though a lot of candidates were unaware of the rules regarding optional remuneration arrangements/salary sacrifice schemes and simply applied the rules regarding taxable and exempt benefits. The few candidates who were familiar with the rules scored well.

### Question 41

Several candidates used the market value at the start of the tax year when calculating the additional yearly rent instead of the market value on the date that the employee moved in.

### Question 42

Several candidates used a closing balance of zero when calculating the average loan, otherwise this question was generally well done.

### Question 43

Many candidates did not appreciate that directors' Class 1 Primary NIC needs to be calculated on an annual basis.

### Question 44

This question was generally poorly done, with several candidates unaware of how to calculate a tax code and instead producing an Income Tax computation with the information supplied.

#### Question 45

Although some candidates produced scores well on this question on Investors' Relief, some candidates were far too brief with their answers to score well. Some candidates discussed the availability of BADR instead.

#### Question 46

This question was generally well done, although several candidates were unaware of the due date for CGT on the disposal of residential property. Some thought it was due within 14 days, others within 6 months but the majority simply went with the normal due date for CGT of 31 January following the end of the tax year.

#### Question 47

The most common error was not applying the matching rules for the disposal of the bitcoin, but simply pooling everything. Some thought that it was sold on a FIFO basis.

#### Question 48

Several candidates wasted time discussing whether the remittance basis was available and whether it was automatic or needed to be claimed. Explanations were often insufficient, for example, when discussing whether the remittance basis charge would apply, a mark was given for stating that Celine had not been UK resident for at least 7 years. Stating that she had only been UK resident for 5 years is not demonstrating knowledge of the rule and therefore did not score the mark available.

### **Module E: Taxation of Unincorporated Businesses**

#### Overall comments

Overall, most candidates performed poorly on this module. In particular, candidates performed poorly on questions 59 and 60.

#### Question 49

Some candidates performed very well in this question, but the majority performed poorly. Some candidates wrote about the rules applicable to Corporation Tax.

#### Question 50

Some candidates wrote about the loan relationship rules applicable to Corporation Tax. Several candidates stated that a 20% or 25% holding was required for the loan to qualify. Many candidates incorrectly gave relief as a tax reducer against the Income Tax liability.

#### Question 51

Most candidates performed adequately on this question. Some candidates confused the income tax and VAT rules.

#### Question 52

This question was not answered well, which was surprising given that capital allowances on plant and machinery are regularly examined. The balancing charge on the BMW, the restriction for the private use and the small pools allowance were often missed. A number of candidates also stated that the wall qualified as plant and machinery.

#### Question 53

Most candidates performed adequately on this question. The most common error was including the planning permission or excluding the site preparation.

#### Question 54

Most candidates performed adequately on this question. The most common error was not time apportioning the capital allowances.

#### Question 55

Most candidates performed adequately on this question. The most common error was applying the tax year basis from 2022/23 and ignoring the transitional rules.

#### Question 56

Candidates continue to perform poorly in questions concerning partnerships. Common errors included apportioning the profit before the interest on capital accounts and failing to apportion Leon's salary to reflect the length of the notional period.

#### Question 57

Most candidates performed well on this question, but some included indexation in the calculation of the gains.

#### Question 58

Most candidates performed adequately on this question.

#### Question 59

This seemed to be a challenging question on which those candidates who knew the rules scored well but most candidates performed poorly.

#### Question 60

This question on incorporation relief also proved to be challenging with very few scoring high marks. Most did however get some marks.



## **ADVANCED TECHNICAL**

### **Taxation of Owner Managed Businesses**

#### General comments

Overall, candidate performance was mixed on this paper. As in previous sittings, candidates performed well in computational questions, including the adjustment to profit in question 1 and capital allowances in question 6. However, they performed less well in other, more discursive questions. In particular, candidates performed poorly in applying the TAAR rules in question 2. They also demonstrated a lack of awareness of basic compliance rules for companies and individuals in question 4. Candidates frequently produced very short answers, jumping straight to conclusions without careful analysis, even when the requirement clearly asked them to 'discuss' an issue.

#### Question 1

This question required candidates to adjust the loss of a partnership for various items, allocate the loss and discuss the reliefs available to partners. Candidates generally performed well.

Adjustments to profit were dealt with well. A common error was missing that redundancy payments are allowable in full for a continuing business. Parking fines were also often disallowed despite being allowable as employee remuneration. The rent provision was noted by few candidates. The treatment of the lease premium was understood, but calculations were frequently wrong. The loss was dealt with well, the main error being failure to pro-rata the interest and/or salary. Candidates generally identified the basic loss reliefs available in the second part of the question, but lost marks when applying these to the specific details.

#### Question 2

This question required candidates to calculate and explain the CGT payable by a taxpayer on the winding up of her company and the potential application of the anti-phoenixing TAAR to her future plans. Candidates did not perform well.

Candidates generally scored well in the first part of the question by identifying the various conditions which need to be met for a BADR claim.

In the second part of the question, many candidates did not accurately analyse the TAAR conditions in the level of detail required. In particular, a large number of candidates categorically stated the TAAR would not apply if the taxpayer were an employee of the successor company. Analysis of Condition D (tax avoidance motive) was often overly brief. A material number of candidates taxed distributions at the non-dividend rates of tax when comparing the scenario if the TAAR did apply.

#### Question 3

This question required candidates to calculate the net cost to a company of providing several benefits through a salary-sacrifice arrangement. Candidates were also asked to explain the tax implications of loans to a participator for the company and participator. Candidates' performance was mixed.

Most candidates performed well in calculating the benefits under the normal employment rules and calculating class 1A NIC on these. However, many incorrectly applied the OpRA rules, not identifying that it is the higher of the salary sacrificed and the normal benefit value (not always the cost to the

employer) which is relevant. When calculating the net cost to the company, most candidates ignored the actual salary sacrificed and related employer's class 1 NIC contributions saving.

In the second part, most candidates identified that this was a close company, the need to consider the s455 charge and showed an awareness of the bed and breakfasting rules. Very few candidates calculated the tax on the beneficial loan correctly, with many linking the amount of the loan to the close company rules rather than looking at the value of the loans in isolation.

#### Question 4

This question required candidates to consider whether enquiries and discovery assessments into personal and corporate tax returns had been correctly opened and discuss the penalty position if an error was found to be made. Candidates did not perform well.

Many candidates demonstrated a lack of understanding of the compliance obligations of companies and individual taxpayers. Common errors included stating that company tax returns are due to be filed nine months after the year end, or that the enquiry window is only open for nine months. Few candidates correctly applied the quarter date rules for late filed returns. Candidates frequently stated the rules around penalties, without applying these to the scenario in question.

#### Question 5

This question required candidates to calculate the taxable total profits of a company following a sale of trade and assets and how any losses could be utilised. Candidates were then asked to explain the tax implications for the company acquiring the trade and assets. Candidates generally performed well.

The adjustments to profit were generally handled well. Common errors included adjusting for the full value of SBA qualifying expenditure in calculating the gain on the warehouse, wrongly calculating the base cost of a factory on which roll over relief had been claimed, calculating the super deduction balancing charge using a 130% uplift, and treating the profit on goodwill as a chargeable gain.

Candidates scored well in discussing the terminal loss relief rules, but many ignored the potential current period claim available.

Tax implications for the purchaser were generally handled well. A common error was discussing capital allowances and stock elections, despite these not being relevant.

#### Question 6

This question required candidates to calculate capital allowances, personal tax and NIC for a sole trader. Candidates generally performed well.

Capital allowances were dealt with well. The most common errors were failing to deal with the private usage of the van correctly and not identifying that the AIA is unavailable where an asset has been acquired from a connected party. Candidates had good knowledge of the 4 month rule after the obligation to pay became unconditional on the machine but often failed to identify that this rule did not apply for hire purchase assets brought into use in the year.

In the second part of the question, candidates demonstrated a good understanding of the personal tax computation. The treatment and calculation of gift aid relief was poor both in terms of extending the rate bands and calculating the personal allowance abatement.

## **Taxation of Individuals**

### General Comments

Most candidates did well on this paper and were able to pick up marks for demonstrating technical knowledge. However, it is important that candidates ensure that this technical knowledge is applied to the circumstances of the question, where appropriate.

### Question 1

This question concerned a company owned by three siblings, one of whom, Matt, had no involvement with the company. Candidates were asked to discuss the Capital Gains Tax and Income Tax implications of Matt disposing of his shares either by way of a Company Purchase of Own Shares (CPOS) or the remaining shareholders buying his shares from him. The purchase by the two remaining shareholders being funded either by a bank loan or additional dividends.

The conditions for Matt to benefit from capital treatment in the event of a CPOS would not be met due to him having owned the shares for less than five years. Most candidates recognised this fact and were able to correctly calculate the resulting Income Tax liability, including the tapering of Matt's personal allowance. Unfortunately, some candidates spent time analysing whether the CPOS would be for the benefit of the trade, which was not really relevant in view of Matt's ownership period.

Overall, candidates dealt well with the second option and identified that the purchase would be treated as taking place at market value because of the connection between Matt & the remaining shareholders. Most candidates also correctly identified that Income Tax relief would be available for any interest incurred on loans taken out to fund the purchase of Matt's shares.

Candidates dealt less well with the option of the purchase being funded by additional dividends. Most candidates did not state that the dividend would need to be grossed up to leave sufficient cash to fund the purchase and even fewer identified that this in turn would lead to the loss of personal allowances.

### Question 2

This question required candidates to calculate a non-UK domiciled individual's Income Tax liability for the 2023/24 tax year. They were expected to prepare comparative calculations under the Arising Basis and the Remittance Basis of taxation and to conclude on whether a Remittance Basis claim would be beneficial or not in the circumstances. The individual had made some remittances to the UK, ranging in nature from cash transfers to loans secured on overseas assets for acquisition of a UK property.

Overall, candidates performed well on this question. Most candidates were able to prepare correctly comparative Income Tax computations, dealing well with aspects such as the High Income Child Benefit Charge and the loss of Personal and Savings allowances.

While most candidates were able to correctly identify key consequences of claiming the Remittance Basis, such as the Remittance Basis Charge and loss of Personal Allowance, they struggled with identifying the taxable remittances made. In particular, the relevant debt caused some difficulty, and very few candidates identified that the historic unremitted income would come into charge regardless of whether a Remittance Basis claim is made in the 2023/24 tax year or not.

### Question 3

Overall there were some good answers with many candidates achieving a pass on this question. The best answers were those that focused on the application to the question. Some answers produced lengthy answers which explained all the rules in detail and then applied the relevant points to the question, however in many cases, the application was then rushed as candidates realised they were running out of time for the question. Marks were awarded for application to the scenario and not for regurgitating all that you know about a particular topic.

### Question 4

Overall most candidates produced a good answer to this question. There was often some confusion whereby a candidate concluded that the cash basis was appropriate and then proceeded to use the accruals basis and vice versa.

Candidates are reminded to pay attention to the requirements of the question which in this case required an explanation of how the property income will be calculated rather than a calculation of the property income.

### Question 5

This question centred around calculating an employee's (Sam) Class 1 National Insurance refund for the 2023/24 tax year.

To do so, candidates first had to calculate Sam's NICable earnings for the year across two employments. Most candidates scored well on this part. Common errors included thinking that because the private medical insurance had been payrollled it would become liable to Class 1 National Insurance and many candidates treated the interest free loan as earnings because it exceeded £10,000, rather than treating it as a benefit in kind liable to Class 1A National Insurance only.

Candidates then had to calculate the National Insurance that would have been due on each employment. This was generally done well. A fair few candidates calculated the National Insurance liabilities on a monthly basis despite the question not providing enough detail to do so. However, marks were still awarded where reasonable assumptions had been made resulting in sensible calculations.

The final part of this part of the question involved calculating Sam's "annual maxima". Success here depended entirely on being aware of the annual maxima calculation and where to find it in the legislation. Candidates who were able to find, set out and apply the steps in the calculation were able to achieve good marks even if incorrect numbers were brought forward from earlier parts of the question. Common errors applying the steps included at Step 1, where many candidates used the annual upper earnings limit & annual primary threshold which meant they were subsequently dealing with numbers in the millions and hundreds of thousands. Step 3 & Step 6 also caused issues, with many candidates applying the thresholds to combined earnings rather than treating each employment separately.

Answers to this question demonstrated the importance of setting out answers in a clear, logical manner with workings shown and assumptions or conclusions stated. Many candidates made simple, but understandable, calculation errors but were still able to achieve marks because they had

clearly shown that they understood the principles and were performing the correct calculations, albeit with ultimately the wrong answers.

Finally, candidates were asked to explain the process for claiming deferral of Class 1 National Insurance contributions in future. Very few candidates scored any marks on this part of the question as most responses were generic comments about an employee's ability to be granted a deferral or that the employee should "contact HMRC and request a deferral". Marks were awarded where candidates offered sensible information regarding the actual process of applying for a deferral.

#### Question 6

This question concerned the tax implications for an individual on leaving her employment in connection with her allocation of shares in her employer's Share Incentive Plan (SIP). The question involved a range of different share types which had been allocated on different dates, so candidates were required to identify how each tranche of shares would be subjected to tax.

Generally, candidates were able to correctly identify and explain the Income Tax and NIC implications of extracting the shares from the SIP. Some candidates did not however go on to apply the rules to the protagonist's circumstances, which meant that they were not able to get the maximum marks for this question.

There were also some candidates who confused the SIP conditions with those of Company Share Option Plan or Enterprise Management Incentive schemes, and others who discussed restricted securities, which were not relevant to the question.

Most candidates dealt well with the Capital Gains Tax implications of the subsequent share transactions, which included gifts to the individual's spouse and child, as well as disposals to a third party.

## **Human Capital Taxes**

### General Comments

A reasonable number of candidates appeared to be well prepared for this paper and achieved a pass. However, it is important that candidates take the time to read the requirement and question properly.

### Question 1

Most candidates passed this question. They understood the significance of restrictions on the tax treatment of shares and the impact of 431 elections. Calculations of tax were generally accurate. There was some disagreement amongst the better candidates about whether trading arrangements were in place at the point of acquisition impacting their conclusion on whether the shares were RCAs. Candidates were given full marks for this discussion even if their conclusion differed from the model answer.

A lot of candidates spend time calculating capital gains tax which was unnecessary given the question asked about employer tax implications.

Any candidate that attempted to deal with the tax consequences of the dividend rights enhancement were given marks even where their conclusions differed to the model answer.

Candidates who discussed Part 7A and dismissed the application of these rules due to the exemptions available for ERS were given marks.

The highest marks were achieved by candidates who explained the impact on the employer. Some candidates, who clearly understood the rules very well, missed out on marks by focusing on the impact to the employee.

### Question 2

This question presented candidates with a scenario that often comes up in the real world, where an individual commences an assignment outside the UK. In this question, the individual's employer undertook its PAYE compliance obligations when the individual departed the UK. It then came to light that the individual's circumstances changed whilst they were on assignment, and then a merger was announced providing the individual with options of redundancy or a return to the UK.

This question required candidates to work through several scenarios and a number of candidates handled the question well. Well prepared candidates identified the initial tax residence conclusion for 2023/24 and 2024/25 along with split year considerations. These candidates also identified that the 'redundancy' or 'new role' options meant that the 2023/24 split year residence position may no longer hold. Many also correctly identified the implications for compliance undertaken in 2024/25. The response could have been structured in a few different ways and well-prepared candidates presented a methodical answer.

Where candidates concluded different UK tax residence position for 2023/24 and 2024/25 under the scenarios – follow through marks were awarded.

Less prepared candidates merely provided basic responses on tax residence under the SRT and not much further analysis. Some candidates missed that the individual would have a 'significant break from overseas work' under the redundancy scenario.

A handful of candidates provided info on the SRT which was not needed e.g. deeming provisions of the sufficient ties test. Some undertook a full residence analysis for each year which was not always needed in the level of detail, and also commented on tax treatment of the redundancy payment, and on social security which was specifically excluded from the scope of the question.

### Question 3

The question tested a fairly common scenario where a senior employee from the US has been seconded to their employer's UK subsidiary on a tax equalisation basis.

Overall, most candidates performed well enough to get at least half marks and managed to consider all the relevant areas to varying success. However, a significant number of candidates spent unnecessary time analysing the residency position when the question stated that this had already been determined. As such no marks were given for this deep analysis.

Almost all candidates identified that no UK NIC will be due given the social security agreement with the US. However, limited analysis was given to the EU position. The model answer outlines the CIOT's position on where the EU multi-lateral agreement and a reciprocal agreement with a non-EU country apply at the same time. However, we are aware some firms may take a different approach or a different interpretation as to what is a 'covered person', so marks were given for a reasonable application of the EU rules; albeit as previously stated, this was seldom commented on.

Almost all candidates identified that the £8,000 limit on qualifying relocation expenses needed consideration, although there was varying success as to what expenses were covered within this threshold. Some candidates incorrectly stated that this was a catch all allowance; allowing any relocation-based expenditure (including the allowance) to be exempt for up to £8,000.

With respect to the pension, a surprising number of candidates decided to focus discussing whether MMR would apply to the pension contributions despite the question clearly signposting application of the US/UK tax treaty with respect to relief.

Regardless of whether MMR or relief under the treaty applied, only a small number of candidates dug deeper and commented on application of the annual allowance and potential clawback. Whilst normally this would be a personal tax issue, given the assignee was to be tax equalised, this would have been a consideration for the employer.

With respect to the calculation and operation of an Appendix 6 agreement, most candidates were able to demonstrate an ability to gross up and understand the principles of how an Appendix 6 agreement functions. It should be noted that full marks were given for the calculation regardless of figures carried forward, so long as the candidate was able to demonstrate that they considered all income, deductions and reliefs that can be applied at source and grossed up correctly.

It was also interesting to see the various methods in which candidates gross up when considering a hypo tax, and it should be noted that no marks were lost if a candidate's gross up method differed to the one in the model answer so long as it was correct.

### Question 4

This was designed to test the nuances of a director resigning but staying on as an employee, and then ultimately retiring shortly after.

Overall, this question was answered poorly, with very few candidates obtaining at least half marks. However, most candidates were able to get the basics and get at the very least a small number of the marks available.

With respect to the bonus, almost all candidates got the basics correct by stating that it was subject to PAYE and Class 1 NIC. However, whilst most candidates were able to identify that the tax point was an area to comment on and noted the points to consider, very few candidates identified that the PAYE rules for directors did not apply in this scenario. Furthermore, almost no candidates commented on the position for whether Class 1 NIC on an annualised basis still applied for the 2025/26 tax year.

A surprising number of candidates opted to comment on the leaving gift of £50,000 being partially exempt under the long service award provision, even though the gift was clearly cash so this provision cannot apply. A similar number of candidates recommended putting the gift of £50,000 on a PSA, even though cash payments will not satisfy the criteria for inclusion on a PSA and there was no indication in the question that the business wanted to ensure a net payment. There was also a mix of candidates who stated that the £30,000 exemption for termination payments would apply and those that identified from the question that this was clearly a payment in respect of retirement, so the exemption would not apply.

Almost all candidates identified that the shares were an RCA and ERS (although very few commented on the legislation for former employees which kept the former employee within scope). A number of candidates stated that the shares were restricted so focused on the forfeiture rules. There was nothing in the question that indicated that the shares would be restricted and it seems candidates were confusing a promise to award shares on a contingent event as an actual share award, when in reality it would be more akin to an option for nil consideration.

#### Question 5

Some candidates scored very highly in the first section of this question with several providing clear responses on the obligations of the troncmaster where he allocates tips, and of the employer where they allocate tips. Few candidates gained marks relating to the employer's obligations in a tronc scenario and some candidates had little to no understanding of the tronc scenario. Marks were awarded for provided FPS/P60 submission dates however few candidates provided these.

Candidates answered the second part of the question well with the majority understanding the NMW and pension auto-enrolment rules and applying them correctly to the scenario presented. It was well understood that NMW entitlement changes on an individual's birthday.

The final part of the calculation was generally answered poorly with many candidates not presenting the calculation aspect well. Very few candidates scored well in this section with many not providing the correct NIC treatment for benefits, the settlement of pecuniary liabilities, and benefits provided through a PSA.

#### Question 6

Candidates either spotted that this question was about disguised remuneration (Part 7A) and scored highly or they did not and struggled to get many marks at all. Those that did not spot Part 7A implications talked about beneficial loans, P11D's and securities options which did not yield many marks.



Those that did spot the relevance of Part 7A answered well and scored good marks. Those candidates had a good understanding of how the regime works and applied that knowledge well to the situation.

## **Inheritance Tax, Trusts and Estates**

### General Comments

The paper produced mixed results. Some very high scores were achieved by the well-prepared candidates but there were also some very poor marks showing a woeful lack of, in some cases, fairly basic knowledge. There were very few non attempts or zero scores.

Questions 2 and 4 were reasonably well answered with some candidates scoring well above average. Question 5 produced some variable results but in the main the answers lacked detail. Questions 1, 3 and 6 were poorly dealt with.

### Question 1

This was a question requiring the calculation of Income Tax and Capital Gains Tax (CGT) on a death estate and was generally poorly done.

A significant number of candidates did not understand the estate tax residency rules nor appreciate that the rules for Income Tax and CGT are different. As a result, they did not perform the calculations required to receive the relevant marks. Most candidates understood the rules around loans. Disappointingly, few candidates could correctly calculate either the CGT on the UK residential property or the probate expenses available for deduction. Some candidates created R185's for both years even though no income or capital distribution had been made in the first year. Some candidates performed Inheritance Tax (IHT) calculations and commented at length regarding the IHT consequences when this was not required for the question and for which no marks were available.

### Question 2

This was a question about the tax implications of some lifetime IHT planning already undertaken.

The question was well answered by most candidates and most were able to identify the issues and reliefs available. However, many candidates did not achieve as many marks as they potentially could have because they did not describe the reliefs in any detail or explain the qualifying conditions i.e. some candidates simply stated that the woodlands relief would be available without explaining how the relief worked nor that the IHT charge on the value of the timber could be deferred. Some candidates became confused as to which gifts would fall under gift with reservation of benefit rules and which would fall under pre-owned asset tax.

### Question 3

This question required the candidate to consider the estate of a non-domiciled individual and make suggestions on the actions which could be undertaken prior to becoming deemed domiciled.

This question was poorly answered by many candidates but there were a small number of well-prepared candidates who answered this question well. Some candidates were unable to correctly identify when the individual would become deemed domiciled thinking that deemed domiciled occurred after only 12 years of residence. A number of candidates failed to identify that creating an excluded property trust could be the best option for the individual. Consequently, this led then to making recommendations that the individual should leave the UK proceeding to advise on the residency rules. This was not required and gained no marks.

As with question 2 many candidates lost valuable marks by not explaining the tax consequences of their recommendations. Some merely writing that Stefan could set up an excluded property trust without elaborating as to what IHT, income tax and CGT benefits this could give and the tax consequences of any distributions in the future.

#### Question 4

This question required candidates to calculate an exit charge before the first ten-year anniversary, a ten-year charge and a ten-year charge after the first anniversary and calculate CGT arising on both the appointment and sale of assets.

Many answers started with an introduction or short notes. Marks are given only for answering the question and applying knowledge to the requirements.

Overall, the question was pleasingly well done and candidates have obviously memorised well the necessary pro-formas for each of the charges. Almost all candidates spotted that a ten-year charge calculation was also required and why.

A surprising number of answers began by calculating the IHT paid by Andrew when the trust was created. In some cases this seemed to have been done to calculate the initial value but no adjustment is needed where the settlor pays the tax. This wasted time and was not necessary.

In too many cases the CGT was poorly done with no distinction between residential and non-residential assets with all gains taxed at 20%. With respect to option 1, many candidates calculated capital gains before concluding that an election for holdover could be made. The question specifically noted to assume that elections were made where possible.

The APR was in the main done well but candidates should note that grazing of horses by a riding school is not agricultural use. Surprisingly, only very few candidates mentioned that let land needed to have been used for agricultural purposes for seven years (rather than just owned for seven years) to achieve APR. Many candidates incorrectly deducted the APR from the initial value of the trust.

#### Question 5

This question required candidates to calculate recapture charges and CGT charges on the disposal of several different assets and to suggest how any charges on three of the gifted assets could be mitigated.

Again, many candidates started the question with a lengthy preamble about the topic, in this case conditional exemption. Marks are only available for answering the question set and answers do not require an introduction.

Many candidates answered this question in a very muddled way by first doing CGT charges on assets sold, then doing IHT charges on the assets sold and then moving to CGT and IHT on each individual asset gifted. This not only wasted time but made the answers very difficult to follow and resulted in less than coherent answer. Surprisingly, the calculation of gains on the gifted assets were omitted in many answers.

Presentation was also a particular issue in this question with candidates failing to note which part of the question they were answering (ie CGT or IHT charges), using totals from the question paper

rather than showing the individual assets and not showing whether they were answering requirement 1 or 2.

There is no CGT on the disposal of clocks; this was specifically mentioned in the examiner's report for the November 2023 exam. Many candidates identified there was no recapture charge on the sword but fewer stated that there was no CGT on it either. Recapture charges are based on market value or net proceeds at disposal, not probate value.

Candidates were almost without exception good at listing likely undertakings, but not at identifying if a claim for conditional exemption could be made.

### Question 6

This question required candidates to prepare a simple death estate calculation and then a further calculation after various post-death transactions had taken place and to calculate carried forward allowances for a surviving spouse. Part 2 asked about the CGT consequences of the various post-death transactions.

This question was surprisingly poorly answered. In most cases candidates failed to distinguish between the assets leaving the Will trust under s.144 IHTA 1984 within two years of death and the variation under s.142 in respect of IHT and CGT referring to both as a 'variation'. Most candidates ignored s.143 and discussed the charity gift being effected by a deed of variation under s.142.

Many candidates correctly gave BPR on the Woodwater Ltd shares but were not clear that these qualified by reason of successive transfers under s 109 rather than Ian had 'inherited' his sister's holding period.

A surprising number of candidates used market values at November 2024 when re-computing the death estate. Some did not re-compute it at all despite the explicit requirement to do so.

Many candidates did not calculate the NRB allowances carried forward for Karen. The majority of those who did, calculated the proportion of the NRB used over the total NRB rather than over a single band. Few capped the carry forward at 100% for the RNRB. The RNRB was an important but simple part of the question and was badly done for the most part. Many missed the fact that the appointment from the Will trust meant the RNRB was now available. A surprising number of candidates incorrectly gave the RNRB in the first computation as the deceased's children were beneficiaries of the discretionary trust.

## **Taxation of Larger Companies & Groups**

### General Comments

Performance on this paper was mixed. Candidates generally performed well on questions 4 and 6 but poorly on question 2, with many candidates failing to correctly identify the composition of, and changes to, loss relief groups and consortia. Some aspects of questions 1 and 3 also proved problematic, with candidates struggling to demonstrate a full understanding of rollover and hold over reliefs in a group setting and differences between the value-shifting and depreciable transactions rules. Some candidates' answers to question 5 addressed a range of issues that were not raised by that question but failed to address those issues that were raised in sufficient depth.

### Question 1

Candidates were required to explain the chargeable gains and group rollover/hold over relief implications of a series of property transactions.

Most candidates were aware of the main requirements for group rollover and holdover. Many, however, incorrectly considered that the gain on disposal of a property leased outside the group could be deferred by reference to expenditure incurred by group members.

A majority of candidates incorrectly treated the assignment of short leases as the grant of short leases and therefore unnecessarily computed amounts subject to tax as revenue and consequently identified a much smaller element of capital expenditure qualifying for rollover relief.

Finally, many candidates failed to correctly tax the proceeds of sale not reinvested with some comparing the amounts reinvested with the chargeable gain rather than the net proceeds of disposal.

### Question 2

Candidates were required to explain how group relief would apply in a complicated group over two accounting periods.

This question was not well answered. Common errors included using the wrong dates for companies joining or leaving the group, not being aware of the dual resident investment company prohibition, failing to recognise the impact of liquidation, getting the consortium relief surrender amounts wrong by applying the relevant percentage to the consortium member's losses rather than the consortium company's profits, not noting the requirement for the consortium company to be a trading company, and not considering the link company rules.

This meant that few candidates were able to produce accurate group allocations across the two years.

### Question 3

Candidates were asked to explain the capital gains implications related to the disposal of several group companies with a particular emphasis on depreciable transactions and value shifting.

Most candidates were aware that there were adjustments to be made to the chargeable gains calculations, but many failed to articulate the nature of the adjustments, often confusing the

depreciatory transaction rules, that do not consider motive and only apply to losses, with the value shifting rules, which are motive based. Also, many candidates did not identify that value shifting did not apply where a reduction in value relates solely to an exempt distribution.

#### Question 4

Candidates were required to calculate, with explanations, the Corporation Tax liability of a trading company. The question further required the candidates to explain the treatment of the disposal proceeds for items of plant acquired during the period but disposed of in the subsequent period.

It was pleasing to see that most candidate dealt very well with the adjustments to profits and the capital allowance computation. Many candidates also dealt with the second part of the question well. However, some candidates struggled with this section as they had to identify that part of the proceeds should be deducted from the pool and part should be treated as a balancing charge.

#### Question 5

In this question a UK SME was acquired by a US MNE and candidates were required to explain the compliance obligations following the acquisition. They were also asked to explain any additional UK tax charges which arose for the MNE.

In general, this question was answered well. Most candidates recognised that transfer pricing was a key issue and covered this aspect in their answer. Some candidates covered the issue in great depth but ignored other aspects therefore missing out on some relatively straightforward marks.

There were some candidates who covered issues for which there was no suggestion in the question that they were relevant. For example, there were no indications of any loan relationships to which the Hybrid rules could apply.

#### Question 6

This question concerned a non-UK resident company seeking to commence business activities in the UK either by setting up a UK company or a branch. Candidates were required to explain whether the non-UK company could have a liability to UK Corporation Tax if it established such a presence in the UK.

The question was answered very well with most candidates dealing with the incorporation of a UK company and the setting up of a PE in some detail. Higher scoring candidates were better able to relate their knowledge of the technical aspects to the scenario in the question.

## **Domestic Indirect Taxation**

### General Comments

Overall performance on this paper was good.

In terms of exam technique, candidates should always seek to gain the easy marks. This may mean reading through the paper before starting to identify the questions that they will find easiest and doing these first and also ensuring that every question is attempted as all will contain some easier marks.

### Question 1

This question was the most challenging on the paper, although it wasn't the worst answered question. It concerned a group of companies that promoted worship around the country. Some entities were VAT registered and others not. One of the subsidiaries was looking to set up a retreat from a newly gifted building with various options for use of the building by two of the subsidiaries, including TOMS supplies.

Although it was the most challenging question there were basic topics within that should have scored marks. This sitting it was pleasing to note that most candidates spotted TOMS and scored well on this part of the question. The disapplication of the option to tax was missed by a number of candidates but those that spotted it attempted it well and generally succinctly.

Common mistakes were not reading the requirement and wasting time by talking about the VAT aspects of the gift from the individual. The question wanted discussion of the supplies made by Starling Retreats Ltd and not the original gift.

A few candidates talked about corporation tax reliefs on charity giving which was irrelevant to this exam and read things into the question that simply weren't there, such as discussing the consequences if Starling was a NETP.

Careful reading of the question (and often drawing out a diagram can be useful here) would have aided some candidates as they thought that the shares in Starling were being gifted by Miltoon Birmingham to its parent, rather than the actual building itself.

There was at times a lack of technical knowledge with a few candidates trying to VAT group Starling with Miltoon, when there wasn't control between the entities.

### Question 2

This question concerned an NHS trust with three specific VAT issues. It was intending to set up a coffee shop, provide car parking, and outsource a renal department. Candidates were required to discuss the VAT implications and refer to case law in their answer.

Marks were awarded for basic principles about business v non-business use where they were relevant but there are still candidates who decide to write everything they know about a topic, rather than getting straight into the supplies being mentioned.

The coffee shop should have been a straightforward part of the question but surprisingly was not answered particularly well. Very few thought about the implications of opting to tax, which would

then affect the rest of the hospital and there was a lot of confusion about the third party operator running it and how they couldn't recover VAT (which was incorrect).

The car park section was answered well generally and the use by staff at the carpark had good discussions about whether it was business or non-business use. Credit was given for alternative conclusions where it was justified by case law. The Court of Appeal decision in the Northumbria Healthcare Trust case in 2024 was noted by some and received credit. There was a mix up by a number of candidates about the 'gift' rules in this section. Car parking is a service not a gift of goods (with the £50 limit to then consider).

The outsourcing of the renal unit had a variety of answers, some of which were given credit where candidates had interpreted the question in a different, but justified, way.

Once again the requirement was not read carefully by a few candidates. Mentioning SDLT when the question asks purely about VAT, will not earn marks.

### Question 3

This question was a mostly computational question requiring calculations under Direct Calculation scheme 2 and the applicable Apportionment Scheme for a retailer of adult and children's clothes.

This was the worst answered question on the paper, though essentially just requiring the setting out of a pro forma and mostly slotting in numbers. Future candidates should expect that computational questions will be asked from time to time.

Once again exam technique let a lot of candidates down. The final three marks were easily obtainable from the public notice, but many didn't answer this.

There were various ways that the question could have been interpreted concerning the promotional items and credit was given for sensible assumptions and follow through marks. It was noticeable that those unfamiliar with the topic tried to copy out information from the public notice with no application to the question.

### Question 4

This question was about a beauty therapist who was looking to rent out one of her rooms in her salon to two different people. She wanted to de-register for VAT and wanted to know if this was possible and the VAT implications. A small number of marks were available on IPT for the two insurance contracts.

This was the best answered question on the paper and the VAT aspects were generally handled well, but the majority of candidates did not spot the difference between a simple exempt letting of land as opposed to providing standard rated services. Because of this, there was little discussion about changing the nature of the supply to Jane to make it VAT exempt.

Surprisingly, there were lots of errors with calculating the VAT on a deemed supply at deregistration. There were lots of 'loose' and incorrect wording with how the £1,000 limit operates. For example, 'there is no VAT where the value is under £1,000' and 'if the VAT on that item is under £1,000 it is exempt.' The £1,000 limit is a maximum figure, and it is the total VAT on all the items subject to the deemed supply. It is not based on the value of an individual item, or the total value of all items.



Credit was given for follow through marks, but it was surprising how poorly this aspect was answered.

A number of candidates wrote at length about disaggregation of business rules and how Andi (or Jane's) turnover would be added to Candy's in order to see if she could de-register. There was no suggestion in the question that Candy's business was being split into two, but these were separate entities looking to rent a room for their own business, from Candy.

There is a common confusion amongst a number of candidates about the option to tax. The landlord having made an option to tax does not bind Candy with her supplies of land.

In the IPT section very few candidates thought about the insurance from the landlord and only covered the public liability insurance and it is again surprising how few candidates can calculate IPT at the standard rate on a premium. Easy marks were lost by those who did not produce a calculation and there was a lot of hedging bets about which rate applied, and often a discussion about travel insurance, which was totally irrelevant.

#### Question 5

This question concerned an online house insurance company that was branching out into a new line of business with car insurance. It was looking to provide a safe driving dash-cam along with the insurance, and the VAT and IPT issues of the new business line needed to be discussed.

One common problem with a number of scripts is not letting the examiner know which part of a question is being answered. For example, saying 'this is an exempt supply' but not stating whether this is for VAT or IPT, cannot score marks. There are also a number of candidates who mix the two taxes up in the same sentence, for example, 'they are exempt for IPT purposes, so VAT is not recoverable'.

A number of marks were lost by most candidates by not considering whether the dash-cam was goods or services and the VAT consequences as a result.

The single v multiple supply part of the question was generally answer well and it was pleasing to see that answers were more succinct with reference to relevant case law, rather than the voluminous pages that is often produced when candidates spot this topic.

Once again with IPT, simple marks were lost for not producing calculations or failing to calculate the IPT correctly. Long discussions about how to register for IPT are not going to be rewarded when it is clear that as the company is already providing house insurance, it will already be IPT registered.

#### Question 6

This question concerned a consultant who was looking to purchase some land to run a camping site. The question required a discussion of whether the activities were business or not and the VAT implications of the different supplies, as well as the SDLT payable on the purchase of the land. This should have been a straightforward question with a lot of 'basic' marks but surprisingly a lot of candidates over complicated or did not read the question. Whether this was because they answered the questions in order, and this was the last one is a possibility, and links back to the general comment of reading the paper through first and answering questions in the best order. There were so many straightforward marks to be had, which were missed.

There were therefore a variety of answers to this question from the excellent to the very poor. A rather large number of candidates thought that the new business would be separate to his current business and would not need to be VAT registered until it exceeded the threshold. It is the person that is required to register, not the business. Therefore, as Pryce is already VAT registered his new taxable activities will come under that registration. This mistake also led candidates down the path of talking about MTD and other registration issues.

There were mistakes in stating that the CGS would apply to his purchase of land (the VAT exclusive figure was £240,000). There were a lot of discussions about the farmer's flat rate scheme (which would not apply as he was not farming, and the level of his non-farming activities would preclude him in any event).

Too many candidates focused on the future supplies to the developer when the question was asking about his new venture and how VAT recovery could be improved and missed the discussion about business v non-business with the sale of lamb. A worryingly high number of candidates thought that eggs and lamb were standard rated.

There still seems to be a recurrent technical issue that arises most sittings. Candidates seem to be under the impression that if land you buy has been opted to tax then you must opt to tax in order to recover VAT. If Pryce is using the land to make taxable supplies then he does not need to opt to tax, and can recover the VAT.

It was pleasing, but again surprising, that the SDLT aspects were generally answered much better than the VAT aspects in this question.

## **Cross-Border Indirect Taxation**

### General Comments

Overall, candidates' performance on this paper was weak. Answers continued to be too brief for most candidates to score highly with a lack of explanation for recommendations. Candidates also need to pay more attention to the practical application of the law and detail in their answers.

Many candidates focused on simpler areas, such as reverse charge or PVA mechanisms and padded out their answers by writing all they know on these more minor areas, sometimes using copy + paste between the questions. Candidates either lacked the knowledge or decided to not delve into some more complex aspects of the questions, missing out on the marks available.

It was noticeable that many candidates summarised the scenario and regurgitated the requirement before moving onto answering the question, which earned no marks and reduced the time available to earn marks.

### Question 1

This question was focused on electronically supplied services, VAT agency and medical exemption.

Most candidates were able to identify that Salafit subscriptions were electronically supplied services and to explain the place of supply but too many talked about the use of enjoyment override, even though nothing in the question implied there was a possibility the services may be used outside of the UK. A few, who were able to explain how the use and enjoyment could apply to the scenario and recognised ways to determine where customers are based, still scored well on this area.

The interaction between Salafit and the gyms in making sales to individual subscribers caused a lot of difficulty for candidates. Many considered the arrangement as an agency but there was a lot of confusion regarding disclosed vs. undisclosed agency and some candidates did not understand who was making the supplies and simply assumed it was the gyms due to their involvement in processing the payments, e.tc. A handful of candidates were able to understand that the discount received from Salafit was remuneration to the gyms for their intermediary services. Most simply described how a credit note would be reported in the VAT return with a handful of candidates concluding there was a barter in play between Salafit and the gyms, without explaining where the reciprocity was.

For the dietitian consultations, most candidates defaulted to general rule services and talked about the PoS and reverse charge, some considered them to be electronically supplied services. A disappointingly small number of candidates considered the medical exemption or the VAT liability of payment handling services.

### Question 2

This question was about importation of machinery for testing and installation and other services related to the installation.

Candidates were able to talk about the importation and exportation procedures well and many knew the VAT recovery rules linked to the ownership of the imported goods. Some candidates considered Zbul being able to import the machine but the requirement for a UK establishment for the availability of temporary admission and ability to export from the UK were not recognised.

Some candidates considered single vs. multiple supply of goods with installation and were able to score well, if their analysis was supported but very few noticed that this was a land related supply with compulsory reverse charge. Even where the land related supply was correctly identified, the maintenance services performed by the UK based subcontractor were typically not linked to the land with candidates assuming general rule services taxable in Germany.

Most candidates understood that warranty was a general rule service but some went into the mechanics of the reverse charge without noticing there was no actual supply taking place. The extended service cover was more difficult with some assuming it was insurance and going into the partial-exemption implications, which was irrelevant given Pachtenon was established outside of the UK.

### Question 3

This question was testing the understanding of VAT implications of toll manufacturing relationship, Northern Ireland Protocol supplies and the zero-rating of food items.

Overall candidates struggled to correctly analyse the flow of transactions and the ownership of goods between the parties with all possible combinations reviewed even though they made no commercial sense. Some even treated Blendorg as the importer and subsequent supplier of the finished products, removing the cross-border complexity of the question. A small number of candidates knew of toll manufacturing, its commercial impacts and the issue of creating a fixed establishment for the overseas business, which has been covered in case law.

Very few candidates realised that the powders could be zero-rated foods with the majority completely missing or ignoring the liability discussion. Even fewer could provide a reasoned analysis distinguishing between the two products and concluding their liabilities were not the same.

The majority of the candidates knew of the Northern Ireland Protocol and correctly identified the movement to ROI as intracommunity distance sales, but a handful of candidates didn't seem aware of NI having a different status and some even thought that NI is not part of the UK. There was a mixed understanding of what goods 'at risk' means with regards to duty tariff but most candidates knew that sales to the rest of the UK were domestic supplies.

### Question 4

This question tested the knowledge of VAT liability for financial services, cross border partial exemption issues, services within a company with establishments in more than one country and single/ multiple supply issues.

In general, candidates scored disappointingly on this question. Many candidates sought to answer it as place of supply question. They focussed most of their answer explaining where the place of supply would be for supplies made to customers in the same country as the establishment making them. Whether the supplies were BTB or BTC, or whether there were special rules based on the nature of the supply didn't matter in the context of the question. Candidates will not score well by focussing on aspects for which the answer will be the same, whatever the technical analysis.

Most candidates identified that loans would be exempt and pure advisory services would be taxable, but relatively few identified that this might change if intermediation was involved. Even fewer addressed the different potential liabilities of fund management services.

Similarly, most candidates recognised that the business would be partially exempt and that the specified order might be relevant but very few dealt with the cross-border aspects of partial exemption.

Particularly disappointing was how little focus many candidates gave to the potential single/ multiple issues involved in the services received from the controlling company in Company. How these were to be provided was signalled as being “the current plan”, indicating that it was where an advisor might have most influence if changes were to be made. Instead, most candidates that dealt with potential changes focussed on changes to the location, employment or activities of staffing. Few acknowledged that this might have had significant impacts beyond potentially improving the VAT position.

### Question 5

This question tested the understanding of Customs Valuation methods 4 and 5 including a calculation, with 3 marks for the different treatment for Import VAT when post-clearance debts are raised depending on whether the VAT was paid at clearance or Postponed VAT Accounting was used and another 3 marks for a brief discussion on Customs Civil penalties.

Most candidates scored relatively well on the narrative part of the first requirement. However, they lacked the understanding to apply what they had written to a numerical example and so generally scored very poorly with the calculations. Many candidates accurately described Method 4 as the “cost minus” (or similar words) method and then took the cost of the goods and only added other elements to it. Many candidates when setting out the calculation failed to identify that for Method 4 the transport to the UK must be deducted (as one is working from a UK sale price to the value at import) and for Method 5 the transport to the UK must be added (as one starts with a overseas production figure); they usually started with a figure and followed the Method 1 rules of what to add or exclude for both methods.

Quite a lot of the narrative descriptions were clearly summarised from the law, writing, “take the sales value and add and deduct the specified items to the extent this has not been done” will not score as highly as setting out what those items are, particularly in relation to those set out in the question.

Most mentioned “profit” as an addition or a deduction. Few seemed to appreciate that for Method 4 it is profit in the UK that is key and for Method 5 it is profit in the country of manufacture that is key. Very few said that in both cases the profit must be in line with the industry norm for the country and type of goods in question.

Very few candidates either grasped the VAT requirement or knew the answer. Most candidates simply discussed the difference at the time of importation.

The scores for the penalty requirement were lower than would have been expected. Around half the candidates either thought that there would be a Customs penalty for the Customs Duty underpaid and a separate VAT penalty for the Import VAT underpaid or only discussed VAT penalties. About a quarter of candidates advised Greabric to submit a voluntary disclosure of the error even though the question says that HMRC and Greabric are discussing these methods as an audit has determined that the value declared was wrong.

### Question 6

This question tested the use of transit (New Computerised Transit System) to move goods from a Customs Warehouse in Northern Ireland to the EU border before export to Algeria. The route of NI, Ireland via France or Spain to Algeria was set out in the question.

The answers were generally poor. Most candidates identified transit as the correct way of moving the goods without incurring Customs Duty and Import VAT. However, many answers lacked enough depth to score well.

A lot of candidates took time discussing the implication of the goods going to GB before Ireland even though the question makes it clear that the route does not involve that happening.

Around 10% of candidates did not identify that transit could be used or answered this as a VAT question about movement of goods as they said Algeria was in the EU.

## **APPLICATION AND PROFESSIONAL SKILLS**

### **Taxation of Owner Managed Businesses**

#### General Comments

There were three key elements to this question, being:

- 1) The acquisition of shares of a dissenting shareholder.
- 2) Financial assistance to an older shareholder.
- 3) Equity incentivisation of a minority shareholder.

A secondary issue was the tax implications of a termination payment

Candidates generally performed well. Most picked up on all the key elements, particularly the exit of the minority shareholders.

A number of candidates made reasonable arguments for approaches different to the model answer. Provided their case was logical and well-made then equal credit was given.

#### Structure

The quality of structure was generally good.

The main issue, as in previous years, was the failure to produce an appropriate executive summary which focused on the key recommendations. Many candidates included far too much information in the executive summary, essentially rehearsing the principal options rather than focusing on the main recommendations.

#### Identification and Application

##### *Capital gain and BADR for Pedro*

Most candidates scored well in this topic. The majority correctly identified the CGT base cost of Pedro's shares. Only a few referenced the fact that a termination package was being agreed and stressed the importance of him remaining an employee of the company until his shares were sold in order for BADR to be available.

##### *Possible purchase of shares by Michael*

This topic was generally covered well. Most candidates either explained the tax implications of third party bank borrowing or borrowing from the company but only a few compared the two options. Many stated that there would be a benefit in kind charge if he borrowed from the company despite this being an 'allowable purpose'.

##### *Capital treatment of share buy-back*

This topic was covered well although several candidates incorrectly stated that HMRC clearance was a prerequisite for the capital treatment.

##### *Termination payment to Pedro*

Again, this topic was generally covered well. Some candidates incorrectly stated that statutory redundancy was tax free in addition to the £30k. Many candidates also referred to the possibility of tax relief for the company being limited to four times the statutory redundancy entitlement, which is not relevant in a continuing business.

#### Relevant Advice and Substantiated Recommendations

##### *Advice on acquisition of Pedro's shares*

Candidates scored well on this topic. The most common issue was that many candidates did not compare the implications of both a personal or company loan for Michael.

##### *Acquisition of Dianna's shares*

Candidates performed fairly well on this topic. Whilst many noted that a full company share buy-back would not be a bad outcome, it was important to also consider the broader commercial considerations such as the lack of BADR and possible IHT implications.

##### *Increasing Henry's shareholding*

Candidates performed less well in this section. Many candidates unnecessarily explained the operation of EMI. A significant number of candidates incorrectly stated that there would be no personal tax implications for Henry if Michael gifted shares to him and they entered into a CGT gift relief claim.



## **Taxation of Individuals**

### General Comments

This question appeared complex at first glance but overall candidates did well, breaking it down and approaching each part logically. The solution was ideally split into four parts: Miguel's residency and domicile and his consequent exposure to tax; restructuring the employment package; choosing the investment option; and using the IHT reliefs to best effect. It was clear that some candidates had not read and thought about the question thoroughly enough before starting.

It was possible to score well on the core areas, without dealing with the awareness aspects in any great depth. However, there were considerable weaknesses in basic technical knowledge, which hampered too many candidates.

### Structure

The majority of candidates prepared a letter correctly addressed to Miguel personally. There were, however, a few cases of candidates writing in the third person, such that the document produced was really a report with the addition of an address at the top.

Candidates are reminded that the summary/conclusion should be only a summary of the main points and overall recommendation(s). It should not be as long as the main body of the letter itself.

Good candidates pitched their advice at an appropriate level for a foreign national with no experience of UK tax matters and avoided the use of technical language and lengthy, unnecessary explanations. For example, the better candidates focussed the residence and domicile explanations to those relevant to Miguel's situation and they referred to each test and the split year cases by description rather than number. Otherwise, candidates could have condensed the application of each of the Statutory Residence Tests into an Appendix and then given the conclusion only in the letter.

### Identification and Application

#### *Establishing Miguel's residence and domicile position and general liability to tax*

All candidates realised that Miguel's residence and domicile was the key starting point to any advice. Almost all candidates spotted the formerly domiciled resident issue, although not always the correct start date for IHT purposes. Most got the correct residence status, despite some of the details of the rules being misunderstood or inaccurately applied.

The extent of the liability to all the taxes was well captured. Quite a few candidates did not comment on treatment of the lump sum or Portuguese employment income at all, missing easy credit.

#### *The offer by Camil Ltd*

Candidates could have done this element better. Other than the company car, knowledge of what benefits are taxable and the correct calculation of the taxable amount was weak. Many candidates did not comment on the provision of medical consultations or use of Camil Ltd's various devices. It is not clear if this was because they did not see this in the question or they did not know how to treat them, so ignored them. Few candidates knew the exemptions available to disabled employees.

### *The proposed investment opportunities*

Overall candidates did well on this section, identifying all the issues and most of the reliefs. Some of the technical knowledge on the detail of the reliefs was insufficient or candidates muddled them up. The best answers dealt with each tax on each investment separately which made it easier to then compare the two choices.

### *The trust for Sara and different trust options*

Very few candidates highlighted that Sara was a minor and thus a trust was necessary, not just a desire for Miguel. Candidates were generally strong on transfers into and the workings of a lifetime trust, but not many recalled the special trusts for children on the death of a parent.

### Relevant Advice and Substantiated Recommendations

#### *Recommendations about the employment package*

Candidates were required to comment on alternative arrangements more suited to Miguel's situation and aims. Credit was given for discussing any viable alternative and the best options were the simplest, such as taking cash in lieu, relocation benefits, additional pension contributions. The better candidates focussed their recommendations knowing that Miguel wanted to maximise net cash or assets to leave to Sara.

#### *Whether to buy UK property and shares or Portuguese property*

Candidates generally opted for the UK property/shares combination, recognising that these could be disposed of or transferred to the daughter and would result in little or no tax. This option also left funds available to be invested elsewhere. Good candidates went on to suggest further tax-efficient investments such as ISA's or additional pension contributions, which are simple things Miguel could do but to great effect.

This was a section where candidates could easily demonstrate commerciality by, for example, recognising that the net rent from the Portuguese property was less than the UK rent payable and would cost Miguel money rather than make it. Many candidates spent time discussing furnished holiday letting relief on the Portuguese property. However, this relief was unlikely to be of much benefit to Miguel in his situation. Therefore, credit was really only given if candidates understood that and used it to inform their decision about their recommendation. Similarly, more complex options suggested, such as Camil Ltd setting up an EIS or EMI scheme were not credited as practical or commercial.

#### *Advice regarding when to set up the trust and what type*

This was an opportunity for candidates to show their awareness and wider knowledge. Sara would only be 8 or 9 years old at Miguel's death and, as a minor, could not legally hold the assets directly. The IHT reliefs and CGT uplift available on death were mentioned in most cases. The special trusts for minor children on death of a parent were forgotten by most candidates.

#### *Advice regarding making a will and seeking specific advice from other advisers*

Almost all candidates put caveats in the introduction limiting the extent of their advice largely only for the benefit of their own firms. However, this section was looking to see if candidates would advise Miguel precisely where he needed additional specialist advice and support given his circumstances and in light of the candidates' specific recommendations.

## **Inheritance Tax, Trusts & Estates**

### General Comments

The question required the preparation of a report considering the tax treatment of proposed appointments from a qualifying interest in possession held in favour of the testator's widower, Paul. The trustees have wide overriding powers of appointment and subject to Paul's interest the Trust is held on a discretionary trust for the wider family, including the testator's children, Shaun and Rebecca.

The question was broadly in two parts, with the largest part focussing on which of two trust property assets, Beach Farm and Fairview, to distribute to Shaun and which to appoint on continuing discretionary trust for Rebecca. The second part focussed on a residential trust property, Sunnyside, and the question of whether it should be transferred to Paul outright or retained on the life interest trust for his ongoing benefit.

Most candidates provided a good response to the second part of the question. However, the answers to the first part were more mixed, with many candidates failing to adequately deal with the CGT and IHT treatment of appointments from a qualifying interest in possession trust.

When considering the impact of both appointments, retaining Beach Farm on discretionary trust was the more attractive option, as the immediate tax liability was far lower due to the availability of agricultural property relief (APR). This enabled the tax charges to be met from the available cash, although credit was given where candidates discussed the option of paying in instalments. One very common mistake routinely noted was focussing solely on the CGT implications of a disposal of either asset, without addressing the immediate IHT impact of the remaining asset being held on a relevant property settlement. Some candidates appeared to have misread the question, as they went on to describe the implications for Paul's estate where the asset not appointed to Shaun remained on interest in possession terms. In other cases candidates appreciated that the remaining asset was going to be appointed onto discretionary trust but did not cover the immediate IHT implications, instead focusing on the future tax treatment once the asset was in the relevant property regime.

Unfortunately, several candidates incorrectly stated that Beach Farm and Fairview would be distributed from a relevant property settlement and therefore attempted to calculate IHT exit charges on distributions.

### Structure

Nearly all the candidates produced a report with an appropriate style and structure. Most papers included a suitable introduction and executive summary, an overview of the trust structure and calculations in the appendices. However, there were noticeable spelling errors that could and should have been corrected by simply reading through.

### Identification and Application

*Identify the IHT and CGT implications of an appointment of Fairview to Shaun and calculate the CGT liability.*

This part was generally answered well, with most candidates correctly identifying that the distribution would be a potentially exempt transfer (PET) and correctly calculating the CGT liability. A

few candidates gave an example of the potential IHT liability on the failed PET and many recommended insurance cover for this.

*Identify the IHT and CGT implications of terminating Paul's life interest in Beach Farm with it continuing on discretionary trust. Calculate the lifetime IHT liability.*

Most candidates correctly advised that Long Fields, Bulls Paddock and Beach Cottage were likely to qualify for 100% APR. Most correctly identified that the furnished holiday let, Red Cottage, would not qualify for APR or BPR. A number of answers noted that the three barns did not have the required seven-year period of occupation and credit was given for highlighting the possibility of delaying the appointment until that requirement was met. Weaker candidates simply stated that all farm assets benefitted from APR without further explanation. A common mistake was to suggest that the barns were not occupied for the purposes of agriculture and therefore did not attract APR.

A large number of candidates discussed APR in the context of a PET on a transfer to Shaun but did not mention the chargeable lifetime transfer (CLT) in relation to either asset. The majority of those who did cover the CLT went on to calculate the lifetime IHT liability accurately. A small number correctly advised that the CLT of Beach Farm should be made before the PET of Fairview so that Paul's annual exemptions could be used to reduce the immediate IHT charge.

A few candidates correctly advised that there would be no immediate CGT implications as the assets were continuing on trust. A larger number of candidates either did not address this at all or stated that the appointment on discretionary trusts would be a disposal for CGT purposes but that relief would be available under s.260 TCGA 1992.

*Identify the IHT and CGT implications of an appointment of Beach Farm to Shaun and the availability of CGT holdover relief on the assets qualifying for IHT agricultural property relief. Calculate the CGT liability.*

As with Fairview, most candidates covered the PET for IHT purposes and provided a calculation of the CGT liability. Many identified that Red Cottage would benefit from holdover relief as a furnished holiday let. A common error was suggesting that Red Cottage could also benefit from Business Asset Disposal Relief without appreciating the need for Paul to satisfy the qualifying conditions as life tenant. Holdover relief under section 165 TCGA 1992 did not appear to be well understood by most candidates, with very few identifying that assets benefitting from APR would also qualify for CGT holdover relief. Only one candidate accurately calculated the CGT liability with a holdover relief claim.

*Identify the IHT and CGT implications of terminating Paul's life interest in Fairview with it continuing on discretionary trust. Calculate the lifetime IHT liability.*

Where the CLTs were identified, this part was answered well but, as discussed above, many focussed on the CGT liability of a transfer of either asset to Shaun and did not cover the immediate IHT consequences of an appointment of the remaining asset on discretionary trust. As stated above, a small number of candidates correctly advised that there would be no CGT disposal of assets remaining in trust.

*Identify that the residence nil rate band and transferable residence nil rate band will be available if Sunnyside is appointed to Paul. Explain the IHT and CGT implications of an appointment to Paul and the potential IHT saving compared with retaining Sunnyside on the life interest trust.*

This part of the question was generally answered well, with the majority aware that Paul's estate would not benefit from the residence nil rate band if no action was taken as Sunnyside would be held on discretionary trust on Paul's death.

Most candidates clearly explained the CGT and IHT consequences of a transfer of Sunnyside to Paul and the ability to claim private residence relief. Most noted that the brought forward allowance would be available in full but fewer recognised that Susan's residence nil rate band would have been tapered to nil and so Paul's estate would only benefit from Anna's brought forward allowance.

#### Relevant Advice and Substantiated Recommendations

*Advice and recommendations on which of Fairview or Beach Farm to appoint to Shaun and which to retain on discretionary trusts from an immediate and ongoing tax perspective.*

Candidates who had addressed the immediate IHT impact of the disposals dealt with this advice well, correctly recommending that an appointment of Fairview to Shaun would give a considerably lower immediate tax liability that could be covered by the cash held by the Trust. A number of candidates based their recommendation on the CGT liability only, often concluding either that Fairview should be appointed due to the lower tax liability.

*Advice on the availability of IHT agricultural property relief and CGT holdover relief on the Beach Farm assets.*

Although many dealt with the availability of APR in the context of a PET on appointment to Shaun, less than half of the reports recommended the appointment of Beach Farm on discretionary trust because of the IHT relief. A few candidates mentioned the ongoing IHT benefit of retaining Beach Farm provided it continued to benefit from APR. Only one candidate noted that a further seven-year occupation period would be required following the termination of Paul's life interest but that would be met by the next ten-year anniversary in June 2032.

*Advice and recommendations on whether Sunnyside should remain on the life interest trust for Paul or be appointed to him based on any immediate tax implications for the trust and future implications for Paul's estate on his death.*

Most candidates advised that Sunnyside should be appointed to Shaun so that his estate could make use of the residence nil rate band allowance. Candidates received credit for sensible advice in relation to keeping Paul's Will up to date and structured so that the Sunnyside passes to qualifying beneficiaries on his death.

## **Taxation of Larger Companies and Groups**

### General comments

The question set a scenario whereby an overseas company, currently trading in the UK through a permanent establishment was considering the purchase of a UK company and then using this to restructure those operations to avoid an increase in tax due to projected increases in its home country's tax rates. Advice was required as to the appropriate structure and financing options for the restructuring.

The best candidates showed an understanding of the overall scenario i.e. that there was to be a share acquisition of a UK company and that this gave an opportunity to protect the newly enlarged group from the future increases in the overseas tax rate due to specific details given about the relevant tax treaties. Understanding this assisted with appropriate recommendations for all elements of the scenario as noted below.

Similarly, candidates who fully appreciated that Macduff Ltd and Norwal Inc had transacted as third parties prior to the transaction avoided spending unnecessary times discussing the various options for transfer pricing once connected and noted the existence of an arm's length price, hence restricting discussions to transfer pricing associated with matters such as financing where a trading relationship would not previously have been in place.

### Structure

The quality of structure was generally high with few candidates failing structure, although on occasion the Executive Summary could have been considered as a report in its own right. In some cases, the level of duplication would have wasted time or reduced the quality of the report as it reduced the clarity of the key issues and recommendations.

### Identification and Application

#### *Acquisition of Macduff Ltd*

Some candidates focused on the choice between a share or asset purchase of Macduff Ltd and spent a lot of time discussing the vendor's position, on which they had no information to formulate a view. The better candidates may have referred to the possibility that commercially it could be possible to consider an alternative structure than the share transaction referred to but recommended due diligence and warranties in conjunction with a share acquisition and then focused on considering the options for the group restructuring and expansion, responding to the client's request to consider how to minimise the ongoing effective tax rate.

#### *Transfer of Branches to UK*

All candidates identified the need to consider the alternatives of branch or subsidiary and most identified the conflict between profit-making and loss-making operations. Whilst most candidates appeared to appreciate that the lower tax rates in Portugal and Poland meant that a UK branch structure resulted in higher tax in the absence of a branch exemption election, the best reports stated this clearly rather than leaving the reader to deduce it from various calculations.

The majority of candidates suggested the possibility of a branch exemption election. The quality of discussion, particularly with regards to losses, varied significantly, particularly when considering the impact on loss-making operations and the possibility of making a streaming election. A small number of candidates identified the possibility of using two companies, one to hold profitable

operations and the second to hold loss-making operations allowing flexibility when considering the exemption election.

#### *Incorporation of Branches*

Similarly, most candidates discussed the possibility of incorporating subsidiaries in the overseas jurisdictions although disappointingly a number seemed to think that these needed to be for all or none, or at least failed to identify the option to incorporate the profitable businesses whilst operating in the loss-making territories through a branch, thus benefiting from the offset of the losses in the UK.

Whilst most candidates referred to the controlled foreign companies rules at some point, some considered them in the context of the existing branches, and generally concluded that it was very low risk, but failed to identify the risk associated with the Lithuanian operations. The better candidates identified the risk, noted the lower tax rate and referred to the gateways, focusing on the fact that other operations had functioned independently of the United Kingdom and showing an understanding of the relevant operations rather than producing excessive information on the gateways that did not apply to the scenario.

#### *Loss-making Operations*

A few candidates considered the timing of the transfers, having appreciated the timing of the rate increase in Ruritania, but disappointingly candidates failed to appreciate that there could be a benefit to the loss-making operations continuing to operate through branches of Ruritania, thus maximising the relief available for the losses.

#### *Financing*

The final area to be considered was the financing. Some candidates focused on the position of Norwal Inc when acquiring Macduff Ltd which again required information that was not available, or the making of assumptions about the Ruritanian tax system. The better candidates recognised that the acquisition of the overseas operations by the UK as part of the restructuring was to be at market value as outlined in the question and hence funds were required by Macduff Ltd. Whilst all candidates considered the alternatives of debt and equity and generally discussed equity well having identified the net cost of 5%, the quality of the discussion on debt financing varied significantly. Whilst most candidates identified that interest deductions could be restricted for a number of reasons and most mentioned the corporate interest restriction, not all appreciated the relevance of the existing interest expense in Macduff Ltd, and few acknowledged that the absence of debt meant that the deductible interest in excess of £2 million was likely to be capped at the level of external debt. Similarly, whilst many candidates did identify the possible disallowance of the interest in the UK few noted the possibility that any internal funding would potentially result in the income being taxed at 35% resulting in a significant differential, even before any disallowance was considered.

#### Relevant Advice and Substantiated Recommendations

The majority of candidates produced definite advice and recommendations which were generally reasonably supported.

#### *Restructuring of Operations*

Candidates generally made a clear recommendation as to how to proceed with the reorganisation although only the better candidates considered a more tailored approach with different treatment of different jurisdictions or the use of a second UK company to give more flexibility when considering



the branch exemption election. Whilst some candidates had made references to quarterly instalment payments when considering the original acquisition of Macduff Ltd, it was disappointing that few recognised the impact of additional companies on the timing of tax payments and as such failed to highlight this more commercial consideration in the recommendations.

#### *Expansion plans*

Generally, those candidates who had made clear recommendations in connection with the restructuring plans also performed well when discussing the proposed new operations and again gave clear recommendations as to how best to proceed. The better candidates fully appreciated the potential future CFC issues with incorporating the Lithuanian operations as a result of the low tax rate in that country. It was considered reasonable to recommend the approach of operating as a branch whilst the operations were expected to be loss-making and advise that further review of the potential impact of the CFC legalisation would be required in the future before a decision was taken as to whether to incorporate the operations.

#### *Financing*

Again, candidates generally made a clear recommendation as to the most appropriate financing option which was clearly indicated as an area on which the client sought advice. Whilst many recognised the potential disallowance of any interest deduction in the UK as a clear factor against debt financing, as noted above, many failed to identify the potential taxation on any interest income if financed by intra-group debt meaning that the 5% tax on dividends for which no deduction had been received was considered a reason to recommend debt financing.

## **VAT and Other Indirect Taxes**

### General Comments

The question sought advice for an individual, Andrew Dixon (“AD”), an architect who was planning to design and build a home for his retirement. He would live there with his wife, but they would retain their family home in London.

The goal for AD was to convert a non-residential property (“the Barn”) on land owned by a partnership (“Developments”) of which AD was a 1/3<sup>rd</sup> partner into a dwelling. Two options were provided to candidates for consideration.

- Option 1 envisaged AD purchasing a completed home from Developments. Developments would subcontract the full works to its wholly-owned subsidiary (“Ltd”), which would source all materials and labour for the project.
- Under Option 2, AD would manage the project himself, having purchased the Barn and site upfront from Developments. He would then source labour and materials himself, although the bulk of the building work would still be carried out by Developments.

In addition to the above Options, candidates were asked to advise on the most appropriate combination of rental properties to be sold by AD with a view to financing the project.

Overall, candidates engaged with the question well and offered some sensible responses. While the main issues were generally identified well, the detailed application of the issues identified was less well managed. The advice and recommendations flowed naturally from this.

### Structure

Most candidates set out the reports in a clear and logical fashion, and virtually all of them included a useful Executive Summary. By and large structure was not a problem. A small number of candidates set the report out in letter form.

### Identification and Application

#### *VAT Treatment of Option 1*

The vast majority of candidates correctly identified that Option 1 involved the zero-rated sale of a completed dwelling, and most handled the consequences correctly. However, quite a few candidates spent too much time on the VAT implications for the partnership and the related company, which were stated not to be clients of the firm in the PSI.

The conditions for zero-rating were dealt with fully by better candidates, and the best candidates discussed the commercial and practical benefits of Option 1 for AD, as well as the technical points, and also addressed the income tax implications for AD.

The direct tax aspects of Option 1 were not handled well, with only the very best answers addressing this aspect correctly. A surprising number of candidates took the view that the profits derived from the disposal were capital and advice as to the taxation of the supposed gain was sometimes very confused.

#### *VAT Treatment of Option 2*

This section was more complex than the preceding one, and this was recognised by the vast majority of candidates. The different VAT rates for the different elements of the supply were correctly identified by most candidates and correctly applied by a good number of them.

There was surprisingly little discussion of the (strict) conditions for reduced-rating the supplies by Developments.

The vast majority of candidates correctly identified the distinction between sale of a zero-rated dwelling in Option 1, and exempt land under Option 2.

The best candidates gave a thorough review of the relevant law, applying it correctly, and drew out the significant practical implications for AD of managing the project himself.

#### *VAT: DIY Builder's Scheme*

Most candidates correctly identified the availability of the Scheme for Option 2, and the majority of those applied it reasonably well. However, a surprising number of candidates either missed the Scheme altogether, or provided very disappointing discussions on the subject.

A large number of candidates were vaguer on the detail of what can and cannot be claimed under the Scheme than might have been expected, albeit credit was given for a reasoned overall discussion.

#### *SDLT Analysis for Acquisition of the Barn*

By and large, most candidates dealt with this aspect fairly well. The different SDLT rates for Option 1 and 2 were correctly identified by most candidates, and it was applied to point out the substantial saving this delivered for Option 2. The sum of the lower proportions ("SLP") was missed by quite a few candidates, including some whose answers were generally good. Nevertheless, credit was given where the response was well-reasoned.

A small number of candidates provided slightly confused responses on this topic, and a lack of clarity cost them marks.

#### *Disposal of Investment Properties (CGT)*

This aspect was generally handled very well by candidates. The issue of PPR was identified by virtually all candidates and applied appropriately by most. Some of the candidates became slightly muddled in their calculations, or seemed to have run out of time, but this was relatively rare.

#### Relevant Advice and Substantiated Recommendations

##### *CGT: Disposal of Investment Properties*

This aspect was generally well-handled by candidates. The majority sought to provide advice and make recommendations based on the calculation of CGT (applying PPR to Property 1, etc) they had carried out.

A good number of candidates concluded that the best combination of disposals, commercially, was of Properties 1 and 3. However, a small number of candidates made arguments about the commercial benefits of retaining Property 3 given its likely future value, and credit was given for this.

### *Comparison of Options on tax grounds (VAT/SDLT)*

Most candidates did attempt to make a comparison on tax grounds, and some answers were very good. Given the closeness in value for the two Options on cost grounds, small (or large!) errors in either calculation or application of the rules for VAT rates or recovery led to incorrect conclusions, but credit was given for well-reasoned efforts.

Only the best answers dealt with the direct tax side of the question convincingly, and many candidates practically ignored it.

### *DIY VAT Refund; Other Miscellaneous VAT Points*

Where candidates had identified the DIY VAT Refund Scheme, they almost all made efforts to provide advice. The administrative aspect was generally well-handled. However, as noted under the I&A comments for this topic, too many candidates were vague on what is and is not reclaimable under the Scheme. This inevitably weakened the quality of their advice and recommendations. As a result, practical suggestions about apportionment or identifying specific elements of Gary Sparkes' supplies (e.g.: the burglar alarm) were surprisingly rare. Overall, this aspect was slightly disappointing.

### *Comparison of Options: Overall Recommendation; General Commercial Points; Advice on Direct Tax Position*

The vast majority of candidates did make an effort to compare the Options, and credit was given for well-reasoned arguments which differed from the sample answer. However, the difference between the best and the less impressive answers showed itself especially strongly in this area.

Surprisingly few candidates drew the obvious conclusion that Option 2 would involve a lot more work for AD, and explicitly noted the cashflow downsides of the Scheme. The best answers handled this aspect with aplomb.

Once again, the direct tax aspect was addressed only by the very best candidates.