

MAY 2025 EXAMINERS' REPORT

CHIEF EXAMINER'S COMMENTS

May 2025 Session

Advice if Candidates believe there is an Error in a Question

This session, there was an error in one of the questions in the OMB Advanced Technical paper. There were two disposals and it was intended that both should have been within 2024/25. Unfortunately, the date of one of the disposals was given as 15 April 2025 rather than 5 April 2025. The question asked for the CGT for 2024/25. This therefore meant that if the requirement was precisely followed, only one gain needed to be calculated. Few candidates did this, but where they did it would have been impossible to score full marks. The vast majority of candidates did as was expected but may have wasted time trying to understand what was intended. The third group of candidates identified that there were two years and worked out gains for both years despite only one being required. These candidates therefore spent most time on the question. We dealt with this by scaling up the marks for the first group and by adding marks to the second and third groups (slightly more for the third group) to compensate. As a result, all candidates were at least as well off as had there been no error in the paper.

Where candidates think that there may be an error in a question:

- 1) Don't panic!
- 2) Although errors unfortunately do occasionally get into the exam questions, on most occasions when we are contacted by candidates about errors, we find that candidates have misread the question. Therefore, re-read the question. It may help to do another question first and then return to this one.
- 3) If you still believe that there is an error in the question, state what you believe the error to be and any assumptions you are making and then answer the question on that basis. If there is an error in the paper, it will be dealt with so that you are not adversely affected (along the lines set out above). If there is not an error in the question, we will consider what you have said and whether there is any ambiguity in the question. If there is, we will take this into account in marking to ensure that you receive a fair mark.
- 4) As part of our review process of the paper, we receive comments from the Tutorial Bodies who receive copies of the questions and answers immediately after the exams. Examiners also undertake a trial mark of a small number of scripts which allows them to see how candidates have approached the question and what they may have struggled with. Together these enable examiners to identify questions which may have ambiguity or be particularly challenging and to adjust their marking approach to ensure fairness to candidates.

AWARENESS

Module A: VAT including Stamp Taxes

General Comments

Most candidates displayed a good knowledge across the majority of the questions, although a lot of missed questions would indicate that some candidates weren't prepared for all topics. Candidates are encouraged to answer all questions.

Question 1

This question was mostly answered well by candidates, with marks being awarded for relevant factors to be considered for registering voluntarily. While the majority correctly referred to both the historic test and the future test for compulsory registration, some missed the mark for the future 30 days test.

Question 2

Performance on this question was good for most candidates, with many achieving full marks. For those candidates who didn't do as well, it was the electronic newspapers and the freehold sale of a dwelling built by the client which caused most difficulties, although some also thought that the children's car seats were zero-rated (perhaps confusing them with children's clothing or books), or exempt.

Question 3

Performance was mixed, with some doing very well and achieving full marks, and a surprising amount not even attempting this question. The bad debt relief should have been claimed within the calculation, although many treated these separately but were still awarded marks if they calculated the VAT relief correctly and identified that relief would be in the quarter to 31 March 2025. A lot of candidates seemed unaware that the claim for bad debt relief must be made within 4 years and 6 months from the later of the date of the supply or the date of payment, with a lot of candidates instead explaining the conditions for claiming bad debt relief.

Question 4

Again, performance was mixed on this question, with some achieving full marks, but some struggling to explain clearly what actions were required in respect of the goods on hand at deregistration. Most knew that if the VAT was less than £1,000 it did not have to be paid, but some candidates confused this with the amount of goods being less than £1,000 rather than the VAT element.

Question 5

Performance on this question was poor. This was a calculation question, but many candidates spent time explaining detailed penalty rules. Too many candidates also spent time writing about June and September penalties, when the question only asked for the penalties relating to December 2024 and March 2025. A lot of candidates seemed unprepared, in particular for the late payment penalties, and used incorrect penalty rates. Some also incorrectly used the penalty rates which would apply to errors. Many missed the daily penalty, and many missed the interest, with even the better prepared candidates tending to only remember about one or the other.

Question 6

Performance on this question was very good, with a lot of candidates achieving full marks. However, some candidates confused the VAT group rules with the capital gains group rules for companies. And some candidates missed that Sielver Ltd had a cashflow advantage from receiving VAT repayments each month and would lose this if they joined the VAT group.

Question 7

It would appear that many candidates didn't prepare for this topic based on how many did not attempt this question. However, those who prepared did very well on this question. Some candidates used incorrect figures for apportioning but were still able to pick up some marks for the remaining parts of the calculation.

Question 8

Performance on this question was mixed, with some well-prepared candidates doing very well. However, some answers were quite confused, as candidates did not treat goods and services separately which limited how many marks they could achieve, since the treatment differs. Some candidates also wrote about the supplies of good and services to UK customers, which was not required.

Question 9

Performance was mixed on this question, with some candidates achieving full marks. Some spent valuable time stating conditions for the flat rate scheme which were not required. Some incorrectly used the VAT exclusive amount for the flat rate scheme rather than VAT inclusive, while some took the VAT exclusive figures from the question and treated them as if they were VAT inclusive for the normal VAT accounting calculation. Some also forgot about the 1% reduction for the first year of VAT registration.

Question 10

Performance on this question was mostly good, with many candidates achieving full marks.

Question 11

Most candidates performed well on this question. Where mistakes were made, it was most commonly calculating Stamp Duty on the market value or stating that Stamp Duty was payable by the seller or by the company.

Question 12

Performance on this question was mixed, with many candidates doing well. The most common mistake was forgetting to state the date that the payment was due or stating an incorrect date. However, a minority used incorrect stamp duty rates.

Module B: Inheritance Tax, Trusts and Estates

General Comments

There was a generally satisfactory performance by most candidates.

Question 13

Related property continues to be a weak area for some candidates. Where it was recognised that the related property rules were applicable, most candidates failed to compare the related value of Victoria's shares with the unrelated/standalone value. BPR was regularly missed or calculated at 50%.

Question 14

Some candidates need to recognise that where a 'gross chargeable transfer' figure is given, AEs do not need to be deducted. Other candidates forgot to deduct AEs from the transfer into the trust and some calculated the IHT at 20% rather than 20/80 (or 25%).

Question 15

This question on the transfer of the residence nil rate band (RNRB) was generally badly done, demonstrating that a lot of candidates do not understand this area. Some candidates used £175,000 throughout, and where it was recognised that another amount was relevant, transferred the unused amount rather than the unused proportion. It was often thought that Matilda could only take over the unused RNRB from one of her spouses, not both, and others thought that she couldn't take over Richard's RNRB as Lucas wasn't Richard's son. Some candidates wasted time discussing the transfer of the NRB and/or tapering the RNRB, which clearly wasn't relevant to the question.

Question 16

AEs were often deducted from the figures for the gross chargeable transfer and the PET. Some candidates thought that Mary or the executors were liable to pay the IHT due on the PET.

Question 17

A few candidates thought that the maximum spouse exemption where the recipient spouse is not UK domiciled was £55,000, which shows the importance of using up-to-date material to study for the CTA exams. Some candidates thought that when Margrethe left the UK, the election to be treated as UK domiciled for IHT purposes was '*nul and void*' and the IHT on William's death would be increased accordingly. Some candidates discussed the remittance basis election, which was not relevant to the question.

Question 18

Answers to this question were generally poor. Despite the figure for the gross chargeable transfer being given, several candidates wasted time calculating it. On Philip's death, some candidates starting figure was the market value at the date of the transfer rather than the gross chargeable transfer and several forgot to apply taper relief in calculating the IHT due.

Question 19

Despite the question stating that the value of the apartment was included in the figure given for Diana's death estate, several candidates added it in again, sometimes with 5% admin costs deducted. In the calculation of quick succession relief, some candidates used the market value of the apartment at the date of Diana's death rather than the value at the time of her brother's death.

Question 20

Answers to this question were very mixed. Some candidates didn't recognise that the residence nil rate band (RNRB) needed to be tapered, and where it was recognised, the calculation of the tapered RNRB was often done incorrectly. A few candidates calculated the tax on the death estate at 40%,

despite it being clearly stated in the question that due to the size of the charitable legacy, the reduced rate of IHT applied.

Question 21

There was clearly some confusion among some candidates between a 'share of a partnership' and 'shares'. Some candidates lost marks for not answering the question and stating that the partnership and the shares were not located in the UK rather than stating where they were located.

Question 22

This question was frequently omitted, although when attempted there were some good answers. Weaker candidates deducted the tax payable by the trustees and/or added the distribution, or the tax thereon, to the tax pool.

Question 23

No comments.

Question 24

No comments.

Module C: Corporation Tax

Overall comments

Most candidates displayed a good knowledge in core areas. However, there were some gaps in knowledge throughout the paper. Candidates are encouraged to attempt all questions.

Questions 25-27

Most candidates performed well in these questions. Common problem areas were: the calculation of marginal relief (Qn 25); accrued staff bonuses (Qn 26); and the date on which capital expenditure is treated as incurred (Qn 27).

Question 28

Many candidates were comfortable with the mechanics of calculating SBAs. However, many struggled to identify non-qualifying expenditure, often treating the expenditure on all three buildings as qualifying expenditure.

Question 29 & 30

Candidates displayed a good knowledge of the rules in these questions. Common errors were: treating dividends as qualifying expenditure (Qn 29); and the calculation of rollover relief (Qn 30).

Question 31

Quite a few candidates didn't attempt this question. Of those that did answer the question, many struggled to identify which loans and repayments to take into account.

Question 32

Most candidates did well in this question. A common error was to carry back the property loss to the preceding period.

Question 33

Common errors included: claiming group relief for a company that was not within the group relief group; treating the capital loss in the same way as losses available for group relief; and not including all eligible amounts available for surrender as group relief.

Question 34-36

A lot of candidates didn't attempt at least one of these questions. Common errors included: the calculation and treatment of the degrouping charge (Qn 34); and how to deal with accounting periods that did not match (Qn 35).

There was a general lack of knowledge about the income tax withholding rules in Qn 36.

Module D: Taxation of Individuals

General Comments

Overall performance was good, with many candidates being well prepared for the questions. Some topics proved to be slightly more challenging for less well-prepared candidates.

Question 37

Most candidates did well on this question, with many achieving full marks. The most common mistake was the treatment of the transferred marriage allowance, which is a tax credit to reduce the tax liability and not added to the personal allowance or deducted from income. Some candidates also used the incorrect savings nil rate band for higher rate taxpayers, and some used the dividend nil rate band of £1,000 from the previous year instead of the correct £500.

Question 38

Candidates did not perform particularly well on this question, and a surprising number did not attempt it. Many were unclear on the correct timing of the bonuses, and the treatment of the pension contributions. Most did not include the benefit on the laptop which had significant private use, and of those who did include this, many incorrectly included the full £3,000 rather than the 20% benefit of £600. The question said to clearly show your treatment of each item therefore it was necessary to include reference to the employer pension scheme contributions not being taxable to demonstrate this knowledge.

Question 39

Most candidates did well on this question, recognising the correct list price and correctly restricting the deduction towards the cost of the car, albeit a small amount deducted this after calculating the benefit. However, many forgot to apportion the benefit for the car only being available part of the year, and some forgot to deduct the contributions towards the private use or deducted them prior to calculating the benefit.

Question 40

A lot of candidates struggled with this question or missed it entirely. Common mistakes included calculating National Insurance contributions for Juliet on the dividend, confusing the primary and secondary thresholds, missing the employment allowance or deducting it from the salaries before calculating the employer's contributions. Some well-prepared candidates performed well.

Question 41

Most candidates did well in this question. Although care was required in the layout to ensure the balance of the £30,000 exemption was set against the car, and not against the restrictive covenant which was fully taxable. Many candidates weren't able to correctly allocate the £30,000 exemption.

Question 42

Some candidates did well, however some struggled with the details of the tapering rules which needed to be considered, although tapering was not actually required. Some candidates also tackled this question with figures only and did not include explanations, with some not concluding whether there would be an annual allowance charge which was specifically asked for.

Question 43

Most candidates did very well on this question, with many achieving full marks. However, some treated the tax-free benefit of parking as a taxable benefit, and a small number allowed the personal allowance which wasn't available due to the level of income. A small number would appear not to have prepared for Scottish taxpayers, either not attempting the question at all, or not attempting to use the Scottish tax rates.

Question 44

Most candidates really struggled with this question, with many missing the fact that split year treatment applied. Some candidates spent time discussing domicile, when the question only asked about residence. Others spent time discussing detailed rules on the sufficient ties tests. However, some well-prepared candidates did well, with some achieving full marks.

Question 45

Most candidates did well on this question, although some confused the rules for grant and exercise.

Question 46

Most candidates did well on this question, with many achieving full marks. However, some didn't read the question carefully enough and allocated shares as "same day" shares when they were actually purchased one year earlier. Some also got confused with "1 for 2" shares which means 1 for every 2 already held, but instead they doubled the number of shares as if it had been 2 shares for every 1 held.

Question 47

Most candidates did well on this question. However common errors included offsetting the capital losses before the AEA, adding the foreign tax onto the foreign gain, and taking CGT at 10% instead of 20%.

Question 48

Most candidates did quite well on this question, however some spent time writing about late filing penalties of the return when the question asked about the penalties in relation to the unreported gain.

Module E: Taxation of Unincorporated Businesses

General Comments

In general, there was a poor performance by most candidates, even on the most fundamental of areas.

Question 49

No comments.

Question 50

Penalty percentages were generally correctly stated, but applied to the amount of the understatement of trading profits rather than the potential lost revenue (PLR). Where PLR was calculated, candidates took into account Income Tax but very few considered Class 4 NIC

Question 51

Most candidates performed poorly on this question. Very few considered Class 4 NIC and the payment on account. Despite the fact that the figure for Capital Gains Tax was given in the question, several candidates took this to be the gain and so deducted the AEA and calculated the tax at 10% or 20% on the remaining figure.

Question 52

Very few candidates correctly calculated the adjustment required for the car leasing charge. Some added the ISA interest instead of deducting it and others grossed up the gift aid donation and adjusted for the gross amount.

Question 53

Since capital allowances on plant and machinery are regularly examined, it is surprising how badly this question was done. Several candidates applied the rules applicable to companies and split the 15-month period into two computations, and some thought that the disposal of the main pool items resulted in a balancing charge.

Question 54

While this question on cessation of trade was often omitted, those candidates who attempted it performed poorly. Some candidates split the final 17-month period into two periods. Some calculated capital allowances on the car and where a balancing charge was calculated, this was often deducted from the adjusted trading loss. The basis period for the final tax year was often not stated.

Question 55

The main problem with the answers to this written question on loss reliefs was the lack of clarity of explanations. Candidates need to be clear as to exactly how and against which income losses can be relieved.

Question 56

This question on terminal loss relief was regularly omitted. Those candidates who attempted it performed poorly and clearly did not understand how the maximum loss under s.89 ITA 2007 (terminal loss) is calculated. The due date for the claim was often misstated.

Question 57

No comments.

Question 58

Several candidates missed the fact that the small part disposal rules applied to this situation and therefore failed to score well.

Question 59

Several candidates thought that gift relief was applicable, despite there being no mention of a gift element to the disposal of the business. Where BADR was recognised, some candidates thought that it wasn't available on the goodwill.

Question 60

Most candidates managed to score some marks on this question on gift relief, but there were few good answers. Some candidates missed the gift relief entirely and therefore failed to achieve many marks.

ADVANCED TECHNICAL

Taxation of Owner Managed Businesses

General comments

Overall, candidate performance was mixed on this paper. As in previous sittings, most computational questions were well answered, particularly the plant and machinery capital allowances aspects of question 1 and question 2. Very few candidates performed well in question 5.

Unfortunately, there was an error in the wording of question 3 in that the date of the factory disposal was given as 15 April 2025 when it should have been 5 April 2025. The marks for all candidates' marks were adjusted to compensate for this with the level of adjustment depending on the approach adopted. No candidates will have been worse off as a consequence.

Candidates often missed out on marks for more straightforward aspects of questions such as when a tax liability was payable. This is an area where future candidates could ensure that they maximise their available marks by ensuring that the requirements of the question are fully answered.

Question 1

This question required candidates to calculate the eligible plant and machinery capital allowances on several items of capital expenditure and explain the availability of structures and buildings allowances for a company acquiring a new manufacturing site. The question was generally well attempted.

The vast majority of candidates set out the capital allowances calculations appropriately. Hire purchase, fixtures and failing to include full expensing were the most frequent errors in the first part of the question. Several candidates did not correctly treat the disposal of the boiler as part of a water heating system and therefore within the special rate pool.

Part two of the question was more variable in quality. Candidates were clearly not as familiar with structures and buildings allowances and answers demonstrated a lack of understanding of the key points such as the rate of allowances, the need for an allowance statement and the point from which allowances can be claimed.

Question 2

This question required candidates to perform several adjustments, including a capital allowances computation and a lease premium calculation, before discussing loss relief options for a sole trader. The majority of candidates handled the capital allowances computation well.

A common error, however, was incorrectly claiming Annual Investment Allowance on an asset that had been used for non-trade purposes prior to the commencement of the sole trade business. Whilst most candidates added back the cost of the laptop included in office and administration costs, some candidates did not correctly adjust for the private use of the laptop within the capital allowances claim.

While most candidates recognised the need to adjust for the lease premium, errors were frequently seen in the calculations, including the pro-rating of the lease premium deduction to reflect the accounting period of less than 12 months.

Most candidates demonstrated knowledge of the available loss relief options, but fewer applied these options effectively to the scenario presented. A surprising number of candidates failed to identify and justify the most beneficial loss relief claim, instead merely listing the available options. Very few candidates were aware of the loss relief available in respect of Class 4 National Insurance Contributions, and only a handful applied this to the scenario.

Question 3

This was a core question dealing with the conditions and Capital Gains Tax calculations relating to Business Asset Disposal Relief (BADR) on the disposal of shares and of a personally owned property. As noted above, there was an error in the question with the date for the factory disposal being given as 15 April rather than 5 April, meaning it wasn't within the tax year covered by the requirement.

Over 90% of candidates either answered the question as intended or dealt with both aspects but in two tax years. Those candidates who answered the question as set, couldn't score full marks because they didn't cover the disposal not covered by the requirement. Their scores were therefore scaled up so that they could score full marks.

The question was generally well answered by the majority of the candidates, who showed a good understanding of the conditions. The presentation and structure of the answers was also very good.

The first part of the question relating to the share disposal was well answered by almost all candidates with only a couple of common minor points that created some confusion/error:

- A number of candidates incorrectly stated that there was a requirement for the director to work for a specific minimum number of hours in order to meet the "the individual is an officer or employee of the company" requirement.
- In a similar vein, a number of candidates stated that the fact that the director spent 40% of her time managing personal investments was relevant to the availability of BADR which of course it is not.

The second part of the question relating to the factory 'associated' disposal was less well answered and again there were a few common areas of confusion/error:

- The majority of candidates failed to identify that the restriction of BADR for letting only applies for the period from 6 April 2008 and that therefore there was no restriction for the first three year period of ownership.
- A large number of candidates stated that the letting restriction was based on the 90% rent charged for the full period or failed to identify that the ownership period was 20 years and not simply the 19.5 years to October 2024.
- There seemed some confusion by a minority of candidates concerning the permitted period for the time allowed after the share sale to satisfy the 'withdrawal from participation' condition.

Question 4

This question required candidates to explain which benefits could be included in the PAYE Settlement Agreement (PSA) and then to calculate the amount payable by the company under the PSA. Candidates did not perform well and showed a general lack of understanding of PSAs and the administrative process to set up a PSA.

Many candidates showed a lack of awareness as to when a benefit can be included in a PSA and made a general assumption that benefits could automatically be included without discussing the eligibility

criteria. Other common errors were to mistake the PSA process with P11Ds, which often led to confusion over the registration process and a calculation of Class 1A instead of Class 1B.

Several candidates did not correctly apply the relocation expenses exemption, the trivial benefits exemption or the £150 exemption for annual staff events. This meant that they were unable to identify how these items which could be included in the PSA.

The calculation of the amount payable under the PSA showed that candidates understood the need to gross up tax payable by the company. However, many candidates failed to calculate the Class 1B correctly and the total amount due under the PSA often incorrectly included the cost of the benefit itself.

On the latter part of the question requirement, many candidates failed to explain how the employee's tax liabilities and Class 1B National Insurance contributions paid by the company were allowable deductions for Corporation Tax purposes.

Question 5

This question required candidates to discuss the major change in the nature or conduct of the trade rules and calculate the resulting Corporation Tax position. Candidates did not perform well in this question.

Many candidates demonstrated a lack of understanding of the change in ownership rules and very few were able to discuss and apply these rules to the scenario. Another fundamental error was that candidates more often than not allowed losses up to the major change in trade rather than the change of ownership date. The time period under review was generally well understood and candidates performed well in identifying what was and was not a major change in the nature or conduct of the trade.

Question 6

This question required candidates to demonstrate their knowledge of the differences in the tax treatment of a sole trader compared with a limited company. Overall, this question was generally well attempted and easy marks were gathered by candidates for the various calculations.

Most candidates did not handle the R&D element of the question correctly, particularly the overseas issues. Others did not identify that the additional accountancy fees only applied to the company scenario.

Taxation of Individuals

General Comments

Overall performance on this paper was mixed with candidates finding question 5 in particular challenging.

Question 1

This question asked candidates to explain the implications of four events taking place in 2024/25. The events in question being three share sales and the protagonist receiving notification that a further company in which he held shares was going into liquidation. All of the shares had met the conditions for the Enterprise Investment Scheme.

Well prepared candidates were able to explain the implications of each event well, picking up good marks for identifying the differing positions for each one, including the availability of loss relief under s.131 ITA 2007 and why this would be beneficial for the taxpayer.

One of the share sales gave rise to a loss. Unfortunately, a common area of confusion was how to calculate the restriction required to that loss due to the shares having been held for more than three years.

Question 2

This question concerned an individual who had recently arrived in the UK on a temporary secondment and the impact of overseas workday relief on the taxation of his earnings.

On the whole, candidates identified that overseas workday relief was available and discussed the conditions which had been met by the individual's circumstances. However, many struggled to accurately calculate the individual's tax liabilities, in particular in relation to the two bonuses received and his overall National Insurance liability.

Unfortunately, a number of candidates also wasted time discussing the domicile and residence status of the individual, which was not relevant since this information was provided in the question.

Question 3

Overall, this question was approached well with the majority of candidates securing a pass on the question. Candidates are reminded that they should use tables for calculations; this was not always the case.

Common errors in the question included applying the accruals basis due to an incorrect understanding of the application of the £150,000 limit, failure to adjust the furnished holiday let income for private use, incorrect treatment of the interest free loan for a participator, incorrect treatment of VCT investments and incorrect treatment of a settlor interested trust.

Most candidates, though surprisingly not all, were able to pick up marks for a basic income tax calculation that included abatement of the personal allowance, contribution to a personal pension, gift aid and a tax reducer for finance costs on a residential property.

Question 4

This question asked candidates to explain the benefit in kind and National Insurance implications of living accommodation being provided to two individuals by their employer. One of the individuals was a director and shareholder of the employing company.

On the whole, candidates were able to explain and calculate the benefits in kind, although marks were lost for failing to time apportion the benefits for the individual who had only been living in their property for nine months.

Candidates did not always apply the job-related accommodation exemptions correctly to the two situations presented in the question.

The National Insurance position for the benefits in kind caused some uncertainty, with candidates often not being aware that the settlement of an employee's pecuniary liability would be subject to Class 1 primary and secondary contributions rather than Class 1A.

Question 5

This question related to a married couple who had recently moved to the UK and were both remittance basis users. Candidates were required to identify and determine the tax treatment of various remittances made to the UK from their joint overseas mixed fund account and calculate their resulting Income Tax and Capital Gains Tax liabilities.

Generally, candidates were able to identify the remittances that had occurred and were aware of the statutory ordering rules applicable to mixed funds. However, many struggled to correctly apply these rules to determine the nature of the funds remitted in each case.

The most common error on this question was regarding the treatment of an asset which had been purchased offshore from funds in the joint account since their arrival in the UK, then subsequently remitted to the UK. In this case, most candidates failed to identify that the purchase was an offshore transfer which was derived from a proportion of all funds held in the account at that time and applied the statutory ordering rules instead.

Some candidates also wasted time on discussing the residence status of the individuals, including in some cases split year treatment and completing comparative calculations of their tax liabilities under the arising basis, which was not relevant as the question clearly stated that the couple would both be claiming the remittance basis.

A large number of candidates did not attempt the calculations at all but were still able to score some marks on explaining the theory correctly. Candidates who did perform calculations were able to pick up some easy follow-through marks on their Income Tax and Capital Gains Tax computations, even if they had struggled with the earlier part of the question.

Question 6

This question involved a takeover of a company and the capital gains tax implications for the shareholders and was generally answered very well by candidates.

There were a lot of easy marks that could be picked up for applying technical knowledge to the scenario rather than simply stating information and quoting legislation.

The main issues candidates had stemmed from failing to read the question properly and setting out answers in a clear format.

Some candidates produced full capital gains tax calculations for both Grant and Sarah when the question requirement only asked for Sarah's capital gains tax liability to be calculated and some also went to great lengths to explain the rules behind EIS & SEIS deferral reliefs as a way of mitigating capital gains tax liabilities when this was not relevant to the question requirements.

A calculation question such as this highlighted the importance of candidates familiarising themselves with the exam software and practising how to draw tables to set out their calculations. Those who had done so were able to produce clear, easy to follow answers that helped them pick up maximum marks for their efforts.

Human Capital Taxes

General Comments

Candidates achieved a wide spread of marks on this paper. Some managed strong passes but a number of candidates were a long way off passing.

Question 1

Candidates found this question difficult. Exam technique was particularly important, with many marks available for showing understanding of how the rules worked without needing to arrive at the correct answer.

Most candidates understood the difference between earnings and ERS. Many made a good attempt at apportioning the securities income from the foreign securities income.

There was generally a good understanding of the payroll implications of notional earnings and marks were given to candidates that attempted a discussion around how NIC and PAYE operated differently in this scenario.

Many candidates lost time discussing tax residence and split year treatment when the question flagged that there were no marks for this.

Question 2

This question was designed to test candidates on the different income tax, payroll and social security implications that an employer will face arising from an employee's treaty residence and contractual status changing during the tax year. The candidates who scored highly approached this question in a methodical manner, taking each period in turn and explaining the impact of becoming a treaty resident, clearly stating how an employer can manage double taxation issues and any resulting implications.

Most candidates scored well on the pre-localisation period, noting that only a portion of their employment income is taxable for a treaty non-resident, but all is liable to PAYE in the first instance. Furthermore, candidates mostly identified that a section 690 application would be appropriate.

Furthermore, many candidates did well to identify the cash flow issue in the treaty residence position, identifying that an Appendix 5 could be a mechanism via which this has been avoided. However, some candidates struggled to identify during which period either a section 690 application or Appendix 5 would be appropriate and lost marks accordingly.

Candidates generally scored well on the social security implications of moving from a secondment to a local employment contract in the UK, and the impact this would have on the individual's social security position.

Candidates did not identify that it may have been possible for the employer to effectively loan the individual the funds to pay the tax and recoup this via a foreign tax credit claim, an approach often taken in practice.

Many candidates lost marks by taking time to talk about issues that were not relevant. Some candidates took time explaining the SRT, including with reference to split year treatment, but this was not in the question and there were no marks for this. Furthermore, some candidates suggested that overseas workdays relief would be appropriate even though the question showed that the individual was being paid into a UK sited bank account. Candidates also lost marks by referring to tax equalisation and Appendix 6, even though it was not stated that the individual was tax equalised. Lastly, candidates spoke about Appendix 4 arrangements, even though the question stated that they did not have one in place and that a full cost recharge existed.

Question 3

This was a question primarily focused on the payrolling of benefits, looking at values that needed to be reported and how they needed to be reported. It also looked at certain aspects of a typical remuneration package that could impact on National Minimum Wage obligations. Most candidates performed well on this question, scoring at least a passing mark.

Most candidates correctly identified that that the Optional Remuneration Arrangement legislation was a factor with respect to the provision of a car or cash allowance, with many also identifying that the provision of the electric car was outside scope.

Candidates are reminded that tax tables are provided in the exam and there was no need to manually calculate the relevant emissions percentages. Additionally, the question already stated that the employer had registered to payroll benefits and included all possible benefits, as such there was no need to outline the registration requirements.

With respect to payrolling values, many candidates incorrectly determined that the method was to calculate the total annual value for the provision of both cars then divide by 12. At the start of the tax year the employer would not have known that the employee would have changed cars in July and instead would have been required to perform a recalculation from that point.

Almost all candidates correctly identified that the provision of accommodation could not be payrolled. With respect to calculation of the benefit, there was a variety of incorrect answers, but it was good to see that most candidates treated the lease premium correctly and provided a reasonable apportionment based on the accommodation being shared by 2 other employees, so candidates were able to pick up most marks even if an aspect of their calculation was incorrect.

Most candidates correctly determined the benefit value for the provision of furniture, but many incorrectly advised that as it was in connection with the accommodation, it could not be payrolled.

With respect to the payment of dental treatment it is important to note that although the employer is paying the provider directly, the payment was structured as a loan to the employee so the rules on employment related loans should have been considered rather than settlement of a pecuniary liability.

With respect to deadlines, candidates correctly pointed out that an employer should provide a statement to employees outlining benefits that have been payrolled.

With respect to the National Minimum Wage requirement, almost all candidates correctly identified the correct rate and that John was salaried for National Minimum Wage purposes, but very few noted that the additional 10 hours worked in April would not impact on the calculation for that month. It was also disappointing to find that many candidates did not note that a pension delivered via salary sacrifice would reduce pay for National Minimum Wage purposes.

However, although calculations varied, most candidates at least concluded that a breach had occurred so could give a reasonable answer on corrective actions.

Question 4

This question was about the UK implications for a Spanish company employing a remote worker in the UK.

Performance on this question was generally weak with a number of candidates scoring 0 or 1 mark. There was however a wide variation in marks.

Most candidates identified that Vasquez SA will not have a UK PAYE tax obligation however few explained that this was due to a lack of 'tax presence' in the UK and many mistook this for a lack of UK Permanent Establishment. Similarly, most candidates identified that Albert would be subject to UK NIC however did not explain the conditions behind this. Some candidates explained Albert's residence status under the SRT despite it not being requested and Albert spending over 300 days in the UK per year.

Question 5

This question was about a UK employee, Amelia, being seconded to an overseas group company and employer schemes which may enable her to get double tax relief.

Whilst performance on this question was not particularly good, it was also not particularly bad with a relatively narrow spread of marks.

Most candidates were able to evaluate the residence article of the DTA and conclude that Amelia is UK treaty resident resulting in relief available via a foreign tax credit. Some candidates spent time explaining her domestic residence status under the SRT despite this being confirmed to them in the question.

A significant minority of candidates did not attempt to calculate the doubly taxed income and some of those who did attempt did not apply a workday apportionment to restrict the amount subject to overseas tax. Candidates were able to explain the application of an Appendix 5 scheme however some commented on S690 and Appendix 6 Modified Payrolls which were not relevant.

Question 6

This was a question that focused on obligations under the Construction Industry Scheme, mainly Propman Ltd's obligations with respect to an upcoming project.

Candidates did not perform particularly well on this question although most got close to half marks.

Almost all candidates correctly identified that Propman Ltd would become a deemed contractor during the project, with some candidates also opining on whether the change in their core business may have made them a mainstream contractor sooner.

Almost all candidates identified that the services provided by B Ltd, C Ltd and D Ltd were all caught within the Construction Industry Scheme and that services provided by A LLP were outside. However very few noted that the provision of the security system by D Ltd would still be caught as it was delivered under a mixed contract.

The question requested Propman's implications and considerations, so it was not necessary to discuss whether the subcontractors could satisfy the gross payment status tests as it is not a matter for the contractor to determine. The Contractor simply needs to verify status with HMRC and apply the appropriate rate.

Very few candidates discussed the reverse charge mechanism for VAT. Candidates are reminded that this is within the syllabus for Human Capital and is a tax implication that arises because of services being caught under the Construction Industry Scheme.

Bonus marks were available where candidates advised on relevant points with respect to the contract between Landlord plc and Propman Ltd, that being the fact that Landlord plc is purchasing a completed product and is not entering into a contract that includes construction operations, therefore Propman Ltd is unlikely to be deemed a subcontractor under this contract.

Inheritance Tax, Trusts and Estates

General Comments

Questions 1, 2 and 6 were the least favoured and poorly performed by candidates whilst question 3 was the most favoured with question 4 and 5 also scoring well in the main. As such this was a balanced paper but one that also differentiated candidates of varying abilities.

Question 1

This question tested candidates' knowledge of non-resident settlements with a UK non-domiciled, UK resident settlor. Over half of candidates were able to pass this question with only one candidate failing to answer the question.

It considered the Income Tax (IT) and Capital Gains Tax (CGT) position from the settlor's perspective on becoming UK deemed domiciled including whether the trust was settlor-interested for both IT and CGT, the IT and CGT implications for the trustees on the sale of UK residential property and acquisition of UK source income whilst beneficiaries resided wholly overseas and the IT position of a UK resident beneficiary who benefited from the trust. It also tested the implications for the executors of a deceased beneficiary who failed to disclose a liability under s.731 ITA 2007 (TOAA) during their lifetime.

Despite the question requirement clearly limiting the scope and breaking it down into logical parts most candidates failed to follow the requirement and answer them in the order intended. As a result, they included unwanted information that wasted time and gained no additional marks. For instance, considering the Inheritance Tax (IHT) position of the settlor when this was not asked for, considering

s.87 TCGA 1992 when this was not in point due to all CGT being returned by the trustees and therefore there being nothing on which s.87 TCGA 1992 was able to bite and S.731 ITA 2007 having already accounted for any benefits arising against income with income to spare.

In calculating the CGT private residence relief available to the trustees on the sale of the residential property occupied by the UK beneficiary, a number of candidates did not allow the period of deemed occupation during the renovation of the property in the first 13 months of ownership (24-month rule). Others ignored the relief or assumed full relief without doing the calculations which restricted their available marks. Some candidates only allowed the renovation costs as enhancement expenditure whereas the dilapidation costs were also allowable. Candidates rarely mentioned the gain assessable under s.87 TCGA 1992 as nil on the basis that the gain was calculated using the retrospective method and therefore fully accounted for by the trustees under NRCGT. Yet others gave long generic detail about s.87 TCGA 1992 despite this not being in point given the facts of the question.

The marks for this question were clearly differentiated between those who applied the principles to the facts presented and those who simply regurgitated everything they knew about overseas trusts in the hope of gaining some marks with little or no supporting calculation.

Question 2

This question tested candidates' knowledge of s.191 IHTA 1984 and s.176 IHTA 1984 post-mortem reliefs and their interaction, both with each other, and with the calculation of estate gains and losses during the period of administration. Estate Income Tax was also tested. Less than half of candidates scored a pass on this question.

A majority of candidates failed to consider s.176 IHTA 1984 in respect of Unit 6 and lost marks as a result. The question requirement was for calculation with explanation and candidates failing to provide explanation lost easy marks. Candidates generally scored poorly on the elements requiring values to be adjusted, for instance in calculating the loss on Unit 6 s.191 IHTA 1984 requires that the sale value is increased by the difference between the discounted value and the related property value to give the "real" loss rather than one which is inflated (alternative method is to reduce the probate value to the discounted value). In calculating the subsequent loss on disposal for CGT purposes the Post-mortem claim is taken into account to give a nil gain before deduction of costs of sale and probate expenses/SP2/04 whichever is greater. A number of candidates effectively double dipped on the loss by including this in both calculations and lost marks as a result. Yet others simply assumed that the post-mortem relief claim meant that no CGT calculation was required in respect of Units 4/5 and 6.

Some candidates deducted the administration expenses before tax instead of in calculating the distributable residue. In addition, some provided R185 entries for both 2023/24 and 2024/25 clearly not appreciating the trigger was the capital distribution to Daniel made only in 2024/25. Yet others assumed that the relevant date for the R185 was 2025/26.

In calculating the estate Income Tax liabilities easy marks were lost by not calculating the 2023/24 tax liability, ignoring the 2024/25 payments on account, and not mentioning that the end of the estate administration/no income in 2025/26 (due to all assets having been sold/distributed during 2024/25) meant that no payments on account or return were required for 2025/26.

The Post-Mortem relief element was generally answered both badly and briefly with s.176 IHTA 1984 ignored in the majority of cases. The Estate Income tax part was well answered in the main although candidates did lose marks for not stating payments on account and due dates. The estate CGT was

less well answered as a result of its necessary interaction with the post-mortem relief claimed although follow through marks were awarded where these were merited.

Question 3

This question tested candidates' knowledge of situs in relation to the Inheritance Tax (IHT) arising on the estate of a non-UK domiciled, UK resident individual. This included the testing of anti-avoidance legislation at Sch. A1 IHTA 1984 (participating interest in a relevant loan), the availability of transferrable nil rate bands and residence nil rate bands between spouses where one is non-UK domiciled with restrictions thereon.

Candidates generally scored well on this question with virtually all passing the question.

The main areas of difficulty were the Euro Bank account which was UK situs as Catriona was UK resident on death, the AUT portfolio which was non-UK situs as she was non-UK domiciled on death and the transferable nil rate band with candidates either gave this in full or not at all whereas it should have been restricted for Dons's estate over the £325,000 non-domiciled spousal exemption. A number of candidates also failed to restrict the transferable residence nil rate band to the value of the property (£10,000 of the £350,000 being in relation to contents).

Some candidates lost easy marks by not claiming the funeral expenses and failing to consider transferable nil rate bands at all.

Question 4

This question required candidates to prepare a death estate calculation which included various gifts which were made in the lead up to death. Part 2 asked for details on how a beneficiary could make a gift to another individual. On the whole, the question was answered well with the majority of candidates recognising that the individual died intestate and was a surviving spouse who had not remarried.

Many candidates incorrectly used TNRB when calculating the lifetime and death taxes of the lifetime gifts. When reviewing lifetime gifts, some candidates missed marks due to not showing workings to include the use of annual exemptions and nil rate bands.

BPR was picked up in the majority of cases, but most missed out on marks for identifying the value of the gross estate before BPR.

There was a lot of confusion over foreign tax credit relief, with varying different incorrect methods being used and therefore again marks being lost.

The majority of candidates missed the fact that an outright gift could have been made, and only making comments on the use of a deed of variation (DOV). It was of concern that a few candidates incorrectly stated a DOV was not a viable option due to intestacy.

Question 5

This question required candidates to prepare income tax computations and R185s for a 18-25 trust. Part 2 required the calculation of an exit charge from the trust as a beneficiary had turned 18. On the whole it was poorly answered, demonstrating that too many candidates perhaps did not fully understand 18-25 trusts and the tax consequences.

Where candidates understood that the income was to be apportioned between the discretionary fund and interest in possession fund, part one of the question was on the whole answered well. However, it was surprising how many candidates did not understand the need for apportionment and therefore the differing tax rates which would apply. There was also confusion on the R185 entries which were required.

For part 2, the exit charge on the whole was calculated well where candidates understood that an exit charge was triggered. Most candidates understood that the exit would be limited to 28/40 quarters. Marks were however missed due to not fully showing calculations/workings to value the shares for IHT purposes.

Very few candidates applied CGT rules for calculating the value of the shares exiting the trust. Marks were missed by many for not showing the CGT calculation and base cost for the beneficiary.

Question 6

This question required candidates to prepare IHT computations for an initial CLT and subsequent TYA, taking into account BPR and the excepted assets. On the whole it was poorly answered.

Very few missed the loss to donor principle, when calculating the CLT and on the whole part 1 was answered well however only a few noted the correct date payable of the lifetime tax. BPR being restricted was on the whole correctly calculated.

However, part 2 was answered poorly with candidates not appreciating s107 IHTA 1984 would permit BPR to be available. Of those who did correctly note s107 would apply, the calculation of BPR available at the TYA was only correctly calculated by a handful of candidates.

Taxation of Larger Companies & Groups

General Comments

Performance on this paper was mixed. Candidates generally performed well on questions 2 to 5 but poorly on question 1, with many candidates failing to correctly apply their knowledge of the CFC rules to the described scenarios. Although question 6 proved less challenging for candidates, many failed to apply the correct enquiry time limits and to identify the consequences (for filing deadlines and enquiry time limits) of a longer than 12-month period of account.

Question 1

Candidates were asked to explain the controlled foreign company status of five companies and prepare any necessary apportionment calculations.

Most candidates were able to describe the basic control criteria, exemptions, and gateways.

The application of these rules to the scenarios in the question was, however, quite disappointing resulting in poor marks. Few candidates were able to prepare correct apportionment calculations; common mistakes included not applying the percentage shareholdings to the apportioned tax charges, applying creditable tax incorrectly or omitting it altogether, and not adjusting for items such

as capital gains and UK dividend income. In relation to the exemptions very few candidates were able to calculate the correct operating profit margin although the exempt period rule was well understood.

Question 2

Candidates were required to prepare a straightforward tax computation, explain the resulting timing of corporation tax payments, and prepare deferred tax calculations based on the computation.

The tax computation was generally prepared well. There was a wide range of calculations for qualifying research and development expenditure, the confusion probably caused by the change of rules affecting the stated accounting period. This aspect was therefore marked leniently.

The instalment payments calculations were not done well as most candidates failed to adjust later instalment payments for changes in estimated profits from earlier instalment periods. A significant number of candidates were not aware of the instalment rules applying to very large companies.

Most candidates were able to prepare reasonable fixed asset deferred tax calculations although some incorrectly included land in the calculations. Many candidates missed the timing differences attributable to deferred deductions for employee bonuses and pensions.

Question 3

This question required an understanding of the tax strategy publication rules in the context of a given scenario.

Most candidates understood the legislative requirements. The application of the qualifying thresholds where there are differing accounting year ends was not, however, well understood with many candidates incorrectly apportioning turnover and balance sheet amounts of a subsidiary instead of simply using the numbers for the financial year ending in the financial year of the head of the group.

Question 4

Candidates were required to calculate, with explanations, the Corporation Tax liability of a trading company. The company undertook a number of transactions with non-UK entities and had also invested in new business premises.

The question was generally answered well with candidates scoring above average marks. There was a transfer pricing aspect which most candidates dealt with competently. The majority of marks for this aspect were awarded for recognising the issue and providing explanations. So, even those candidates who calculated a different amount for the adjustment than identified in the suggested solution, still scored well.

One area that candidates did not deal with well was the identification of qualifying expenditure for Structure and Buildings Allowance purposes.

Question 5

In this question a UK company held a number of shares in unrelated companies for investment purposes. Candidates were provided with details of a number of transactions undertaken by the company during the period and relevant information from earlier periods. The candidates were required to calculate any chargeable gains or losses arising together with explanations.

The question was answered well by many candidates. They demonstrated good knowledge of the provisions regarding the Substantial Shareholding Exemption, on how to use a share pool and the treatment of capital losses brought forward.

An area that was often not so well dealt with by candidates included calculating the base cost of shares acquired through a share for share exchange. Another common mistake was to incorrectly use indexation allowance to enhance a capital loss.

Question 6

This question concerned a UK company which was a member of a group that was not a small group.

Candidates were provided with details of the dates on which the company's Corporation Tax returns were actually filed and the date on which HMRC issued enquiry notices into some of those returns. Candidates were required to identify whether the enquiry notices were issued on time. Candidates were also required to explain the circumstance in which HMRC could issue discovery notices.

For the most part this question was not dealt with very well. Many candidates applied the enquiry limits for members of a small group or singleton company rather than the time limits for members of a large group. Another common issue was not identifying that a period of account of more than 12 months changes the filing date for the returns for that period and in consequence the enquiry time limits.

Domestic Indirect Taxation

General

Overall the performance of this paper was mixed with a range of answers provided to all the questions. Some candidates performed well and demonstrated they were well prepared to sit the exam and other less well-prepared candidates performed poorly.

Many candidates spent wasted time:

- producing irrelevant material (at length);
- reciting information which was provided in the question, or
- making reference to elements that were specifically excluded.

All of the above demonstrate poor exam technique and will not gain credit. It did also mean that they didn't leave themselves enough time to answer other questions in detail, and again losing valuable marks.

Candidates also lost accessible marks by not providing basic compliance information where it was relevant to the question.

Question 1

This question covered a Capital Goods Scheme (CGS) item that was to be sold between two affiliated companies that were currently members of the same VAT group of which one member was soon going to be required to leave. Candidates were expected to consider the standard method override

applicable to VAT recovery on the initial capital spend, as well as the relevant tax point for the transfer of the asset and whether this occurred within or outside the VAT group.

There were mixed responses to this question. Most candidates identified the CGS item, were able to discuss whether this was a single project and which items should be included or excluded from the CGS calculation.

The best performing candidates recognised that the partial exemption standard method was not an accurate reflection of use, talking about other possible methodologies and the need to calculate the standard method override. It should be appreciated that the onus to make an override adjustment lies with the business, and so this is always something that they (and their advisers) should be looking out for.

Most candidates identified that there was an element of tax points in the question, however many did not provide significant discussion of this point. Candidates impressed where they discussed the concepts of the *Prudential* case and concluded on the best approach for the client.

Question 2

Question 2 tested the application of bad debt relief, in the context of a business in distress. It also covered various ways that a business may seek to improve cash flow through the sale of existing and future debts.

Many candidates struggled with this question. Most were able to identify the basics regarding bad debt relief, but often did not provide sufficient discussion regarding the tax points and when the 6-month time limit would be deemed to apply.

Many candidates also incorrectly advised on the treatment of debt factoring and the impact on bad debt relief. A number of candidates also discussed the possible TOGC treatment, despite the question explicitly noting that this had been ruled against by HMRC. The highest scoring candidates were able to clearly demonstrate an understanding of the impact of selling the debts, as well as referring to the *GKFL* case for relevant principles.

Fundamentally, when faced with a scenario which is unusual to them, candidates should return to the basic principles of “Is there a supply? Who is making it? What is the value? What is the time/place of the supply? Etc”

Question 3

This question covered a refer-a-friend scheme and the benefits obtained by both new and existing customers. Candidates were expected to consider the impact of non-monetary consideration and relevant case law. There were also Insurance Premium Tax elements to consider regarding extended warranties.

Candidates generally performed well on this question. Most were able to cover the difference between an existing customer providing a service, and hence non-monetary consideration, and the new customers who were not providing a service by simply signing up to receive a supply.

The IPT elements were also generally covered well, with the differences between the extended warranties and maintenance contracts often discussed appropriately. Candidates also generally considered the concept of a single contract and who was required to account for IPT. Whilst some

candidates reached different conclusions on this point, credit was given where valid arguments were put forward for either approach.

Question 4

This question concerned the liability of three different products, testing the candidates' knowledge of the zero-rating provided for food. Candidates were expected to apply the legislation to these products and discuss supporting caselaw as part of their answer.

Generally, candidates performed well in this question demonstrating they were abreast with hot topics in VAT. Many candidates were able to recall at least one relevant VAT case and apply it to each product. Given the media coverage, it was unsurprising to see that most candidates were able to discuss the *Innovative Bites* case in detail. Well prepared candidates also provided the current status of this case. Some candidates struggled with the turmeric shots product and missed the application of the beverage tests to this product.

Fewer candidates were able to identify the unjust enrichment element within the question and lost marks in failing to do so. A thorough read of the question should have encouraged the candidates to explore this area.

Question 5

This question tested the acquisition of a business either through a share sale or an asset sale, with a focus on an acquisition by a partially exempt VAT group.

This question had a range of responses. Most candidates were able to identify that the purchase of the shares would be VAT exempt and that Stamp Duty would apply at 0.5%. Candidates lost marks for not setting out the compliance obligations of Stamp Duty i.e. timelines to pay.

On the trade and asset acquisition, many candidates quite rightly discussed the *Intelligent Managed Services* case and picked up marks in this area. Candidates also impressed by identifying there would be a self-supply charge and were able to set out in a good amount of detail the theory of this charge. Marks were lost on the application of the theory to the assets at hand within the question. Despite it mentioning in the question that the business was aware of the basic TOGC conditions, many candidates wasted time listing these out and in some cases, in a lot of detail.

Many candidates did not pick up that the building was less than 3 years old and so the buyer would need to opt to tax to get the building as part of the TOGC. Many candidates also miscalculated the SDLT in respect of this and instead of applying SDLT to the value of the property, applied it to the whole value of the asset transfer.

Question 6

This question required candidates to consider the VAT and SDLT implications of Ann purchasing a plot of land to build her retirement home on as well as a conversion of an existing barn into holiday letting accommodation.

This question was generally well answered by those candidates who were prepared. However, a number of candidates wasted time relaying the question back in their answer. Whilst many candidates identified that Ann could use the DIY scheme, accessible marks were lost on not providing the detail on the scheme and its application to Ann i.e., the evidence to be submitted with the claim and the time limits for making the claim.

Candidates performed well in detailing the VAT liability of costs to be incurred by Ann. Candidates also recognised the requirement for Ann to register and dealt well with considering when would be the right time for her register.

Cross Border and Environmental Taxes

General Comments

Overall, the pass rate on this paper was reasonable although candidates' answers tend to be too short or too narrow e.g. making statements about the law involved but not applying that to the scenario.

The answers to the Customs Duty questions were generally disappointing. Candidates may have missed our note with the pilot paper for this new syllabus which brings in Environmental taxes: "Customs Duty will be examined at a more in-depth level than at present".

Question 1

This question covered importation of goods from China and Customs Warehousing.

On the whole this question was answered well, with candidates showing a good level of understanding of the VAT and customs duty implications. The difference between transactions valued at above or below Euros 150 was generally dealt with appropriately although only a few candidates entered into a discussion about whether there was any point in using iOSS if the >Euros 150 sales meant registering everywhere anyway.

Good knowledge of returned goods relief and fulfilment house rules displayed by most candidates. Only a handful of candidates were able to recommend mitigation strategies in relation to the onerous VAT compliance burden (eg clear goods in one EU Member State then use quarterly OSS declarations).

Question 2

This question involved consideration of the application of Plastics Packaging Tax (PPT) to two products.

Candidates generally displayed good knowledge of the PPT rules although many missed the point that a registration liability still arose with the imported goods, even though no PPT was due, as a result of the recycled percentage. This resulted in the incorrect effective date of registration being identified.

A small number of candidates suggested PPT mitigation strategies in relation to the recycled percentage.

Question 3

This question focused on cross-border services, medical exemption and importation of goods.

Most candidates were able to correctly identify the place of supply of PSU's services but too often they would put down everything they knew about general rule services, often rephrasing something they had already mentioned. Candidates like to talk about the mechanics and benefits of PVA, often repeating the same information in different parts of their answers, where imports are discussed.

The UK use and enjoyment override applying to the leased goods was generally well understood but only a handful of candidates understood that it triggered registration obligation for the supplier.

A few candidates focused on the partial exemption status of PSU and despite correctly identifying the research services as taxable, they didn't understand that input tax incurred on related purchases would be directly attributable and recoverable in full and instead they thought it would be residual.

Generally, candidates can describe the importation processes and conditions, such as ownership of goods required for input tax recovery, but some incorrectly defaulted PSU as the importer of record for all goods, missing out on marks available for considering alternative approaches. The interaction of the leasing contract and the importation of devices from China caused difficulty for some. Many candidates knew of Temporary Admission and most of them assumed it can be applied for but very few recognised the fact that some of the devices would never be returned and so the relief conditions could not be met.

Question 4

This question was about excise duty deferment in excise warehouses.

Most candidates were able to gain the marks available for talking about excise duty and its suspension available in excise warehouses, including the movements to another excise warehouse.

The existence of excise warehouses was well known, and most candidates were able to list some of the conditions and procedures for setting up operations in such warehouses, most often the record keeping and porting to HMRC. The least known aspect was the due diligence requirement placed upon the warehouse keeper and very few candidates discussed this area at all.

Question 5

This question tested AEO in GB, specifically the effects of suspension / revocation and what could be done to address issues and so avoid suspension / revocation.

Candidates clearly struggle to differentiate between UCC rules (that apply in Northern Ireland) and GB provisions. In GB guarantees for Special Procedures are no longer mandatory and reductions to guarantees are not linked to AEO status. A lot of candidates talked about the EU-wide benefits of AEO such as the ability move goods across Member States within Special Procedure authorisations, which are not available to GB businesses.

Candidates were confused between the two-part Customs Declaration data sets which can be achieved by being authorised for SCDP (Imports) and NES (Exports) none of which require AEO, saying that this simplification was granted to AEOs and so would be lost.

Candidates attributed much more to AEO status stating variously that suspension or revocation would immediately mean that: all other Customs authorisations would be lost; 100% guarantees would be required; or GBLecky would not be able to use its deferment account at all.

Most candidates made practical suggestions for addressing the issues listed in the question but too many assumed facts that are not specified in the question and so seemed to limit the suggestions they could make, such as "install CCTV" and some suggestions would be hard to implement in practice without good evidence, such as "sack the staff involved".

Question 6

This question tested understanding of the purpose of Anti-Dumping Duty (ADD) Registration Periods, the risks connected to preferential and non-preferential origin importers face particularly when suppliers say they can supply goods from another country so that the goods benefit from a lower Customs Duty rate.

Candidates seemed to have little knowledge of what happens during registration periods e.g. the EU, in this case, sending questionnaires to and visiting manufacturers in the exporting territory to assess whether they can produce the goods, whether they are circumvented from China, in this case, and if manufacturing is taking place, whether dumping is an issue.

Many struggled to turn the theory they seemed to know into practical advice. Only a small proportion of candidates said that the speed of manufacturers apparently setting up in other countries was not credible and should at least be questioned. The scenario was deliberately vague; the right advice is that NIByco should at least question whether it is credible for a supplier to shift production from one territory to another in a matter of weeks.

Candidates struggled with basic points such as simple assembly cannot confer origin, that ADD is levied in addition to Customs Duty (stating that if ADD was duty it would increase the amount to 40%) and who controls Customs matters in Northern Ireland; with students talking about the EU auditing the NI importers or HMRC deciding whether to extend the ADD provisions in the question.

Most candidates were able to discuss practical measures NIByco should consider to satisfy itself whether the suppliers were producing goods where they claimed they were. However, not all solutions were practical, with a fair number suggesting that NIByco should just relocate to GB where there was no ADD and the Customs Duty rate is lower; ignoring that even if NIByco could do that, its customer base is in NI. As the goods would still originate in the same third-countries, they would attract EU duty rates if moved from GB to NI (and NIByco would have paid the UK rate at import).

APPLICATION AND PROFESSIONAL SKILLS

Taxation of Owner Managed Businesses

General comments

The scenario was the proposed introduction of the partners' son to their farming business either as an employee or as a partner. In order to diversify the business, the partners wanted to convert a commercial property to a residential property to be let out. The son had skills that would be helpful in this proposal and so they were considering whether to gift the building to him and, if so, when.

Although the question related to farming business, the issues had a more general application. Overall, most candidates made an attempt to answer the key issues, however, some candidates thought that the question was actually about converting the partnership to a limited liability partnership or to a limited company and so wasted time discussing these options without any benefit. Similarly, the badges of trade and transactions in land rules were discussed without having any relevance to the circumstances in the question.

Structure

The quality of the structure of the answers was generally high, although there were sometimes issues in the Executive Summary, with every point being summarised in bullet form. The few failures were due to a lack of clarity in the language.

Identification and application

Income allocation to Fred

Candidates had knowledge of the differences between taxation and National Insurance costs for employees and partners. They were also aware of the non-active partner restrictions on loss relief, although many thought that this applied to the use of Fred's sole trader losses against his partnership profits, rather than the other way round.

Partnership capital allocation

A number of candidates considered that, as there had been no revaluation, there was no capital gains tax issues as opposed to taking account of the connected party relationship within the family. However, a number of these candidates went on to discuss whether or not a revaluation should be carried out and the consequences: essentially picking up all the relevant issues anyway.

Some candidates did however fail to comment on the Inheritance Tax issues as well.

Sale of land

This issue was well answered, with most candidates realising that there was a potential to claim business asset disposal relief as an associated disposal, if linked to the disposal of a partnership share.

Gift of outbuilding

This was probably the area where the answers were most comprehensive. Candidates identified that there had been a Capital Gains Tax disposal, although some thought that business asset disposal relief

was available. Gift relief was usually mentioned although many thought that this also applied to the gift of the building once converted. Candidates also discussed the availability of agricultural and business property reliefs and the impact of the timing on their availability.

Other tax matters

Many candidates thought that an option to tax would be available to enable the VAT on the conversion costs to be reclaimed or that input VAT could still be reclaimed even if the rental income was exempt. Marks were given where VAT issues were considered such as partial exemption issues for the partnership if the property was retained and rented out.

Relevant advice and substantiated recommendations

Allocation of income to Fred

Surprisingly, discussion of the basic comparison between employment and self-employment in terms of the differences in National Insurance costs and loss reliefs were often missed as candidates moved on to the allocation of a capital share. Several candidates did not mention the Employment Allowance, which would have reduced the partnership's liability to Employer's Class 1 National Insurance should the salary route be chosen.

Good candidates also included more general comments on the non-tax aspects such as motivation.

Allocation of a capital share

Most candidates considered that the best option was to gift a share in the assets to Fred and also linked this to the potential claim to business asset disposal relief on the sale of the land.

Gift of the outbuilding

A number of candidates considered that the partners should retain the property in the partnership and then transfer it on death. The main reason given was the Capital Gains Tax uplift on death and availability of agricultural and business property reliefs. As long as the advice was substantiated, then full marks were available.

Taxation of Individuals

General Comments

This question required the candidate to consider several, potentially conflicting, elements and how they interacted with each other: residence/domicile and PPR relief and their impact on the proposed salary package, property sales and investment income. As a result, there was not one clearly correct answer and the candidate's ability to think through their arguments to the fullest extent was tested. Candidates with a good technical knowledge on which to base their arguments did well.

Not many candidates considered the investment of the proceeds of the property sales or the full extent to which transfer of assets and investment income to the spouse could have been used. It was not a specific question raised by the client but nevertheless it should have been picked up by candidates.

Almost all candidates put caveats in the introduction to get separate financial advice. However, credit was only given where candidates advised Alison precisely where she could benefit from advice from other financial advisers in light of the candidates' specific recommendations within the report.

Structure

Candidates are reminded that the executive summary 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 report itself and neither should it be introducing new ideas.

It was good to see candidates focussing the residence review to the relevant tests and not reproducing the SRT in its entirety.

Identification and Application

Residence and general liability to tax

Candidates generally did very well at establishing the correct residency status, split year case and the importance of splitting the year to protect pre-assignment earnings. Candidates also knew that UK residential property was liable to UK CGT regardless of residency but that residency affected the ability to rebase to the April 2015 value.

Employment income

Candidates' knowledge of the available reliefs for relocation and travel costs was weak. The difference in treatment between cash allowances and reimbursed expenses or direct payment of costs was not appreciated or explained well either, reflecting a poor general understanding of the taxation of employment income.

PPR relief

Overall candidates did well on this section, identifying most of the issues and where reliefs could be maximised or not lost. Some of the technical knowledge on the detail of the reliefs let candidates down. A significant number of candidates were not aware of the requirements for multiple residence elections or failed to detail them sufficiently to obtain full credit.

CGT calculations

Candidates did well on the calculations of the taxable gains and the interaction of the PPR relief available on each property. They also did well on the potential loss of the rebasing of the cost of the flat in either a resident period or if the ownership was transferred to Eric.

Investment income

This was the section candidates did less well on with a significant number omitting the topic completely. Although Alison did not appear to have other investment income from the question, the selling of the properties was generating significant sums of money which were not necessarily required immediately and comments on the taxation of UK and foreign investment income would therefore be required by her.

Relevant Advice and Substantiated Recommendations

Employment package

All candidates recommended whether to take the UK contract or secondment contract and argued their recommendation well. Recommendations regarding the allowances were less well made largely because candidates' technical knowledge was flawed. Candidates who suggested approaching Bahot LLC for a tax-efficient company car were credited. In contrast suggestions to make very large pension contributions to reduce taxable income to preserve personal allowances or child benefit would not have achieved Alison's stated concerns of maintaining current household income and having funds available in four years' time for college fees.

PPR relief

The answer as to which Bristol property to occupy very much depended on whether Alison could sell the flat before arrival. Therefore, candidates' answers varied accordingly. However, provided the recommendation was well thought through and factored in all aspects such as maximising PPR relief, the timing requirements of available funds, transfers to Eric, loss of rent, etc., all viable recommendations were credited.

Candidates could have done better regarding advising on the making of a new PPR election but were hampered in most cases by a lack of knowledge of what made a property eligible to qualify and how the rules worked.

Property sale

All candidates realised that the sale of the flat should take place when Alison was non-resident and the sale of the Bristol house could take place at any time. However, it was an opportunity for candidates to demonstrate some wider commercial skills. Firstly, it was important to remember that Alison needed to live somewhere for all four years of the assignment. Secondly, that she would need specific advice on the potential growth in house prices.

Investment income

Those candidates who recommended selling the flat pre-arrival needed to comment on what Alison could do tax-efficiently with nearly £400,000 of proceeds until it was needed in four years' time. Many candidates did recommend transferring ownership of the properties to Eric to benefit from his lower rate bands and unused allowances.

Inheritance Tax, Trusts & Estates

General Comments

The question required a report to be prepared for the trustees of the Ryan Family Discretionary Settlement and the trustees of the Margaret Ryan Accumulation & Maintenance Trust to consider the tax implications of winding up the discretionary settlement and the implications for the beneficiaries of the A&M trust on becoming entitled to the trust assets on their 25th birthdays.

Many candidates showed a good understanding of the basic IHT and CGT issues being tested and the interaction of the taxes covered in the scenarios of the question.

Most candidates produced a better response to the first part of the question looking at the IHT and CGT implications of the trustees of the discretionary trust appointing either cash or shares to Alice than the second part of the question relating to the A&M trust.

In relation to the A&M trust, it was pleasing to see that most candidates had a reasonable understanding of how the changes to the taxation of trusts in March 2006 affected the trust in the question. Candidates do however need to work on explaining technical tax issues, such as the reasoning behind the trust becoming an 18-25 trust and not a relevant property trust, more articulately in their reports as many clients would have been left very confused by some of the explanations provided. Explaining complicated ideas in a way that a client can understand is a key skill for a Tax Adviser.

Similarly, nearly all candidates were aware that the rule in *Crowe v Appleby* was of relevance to the A&M trust's land and property, but not all were able to explain the scope of the rule or apply this correctly to the trust's assets.

One important aspect of the second part of the question was the A&M trustees' requirement that each beneficiary should be in the same financial position as far as possible with their ownership of the assets following their 25th birthdays. Again, most candidates dealt with this well and provided a comparison of the net cash position for each beneficiary as required.

Structure

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

Some candidates provided unnecessary details of how the trusts' income would be taxed, which were not relevant to the question and in addition, some candidates wasted time covering the Stamp Duty Land Tax implications of the appointment of assets out of the Ryan Family Discretionary Settlement, which was not relevant as the trust assets did not include any land or buildings.

Identification and Application

Identify that an IHT exit charge will arise for the trustees of the Ryan Family Discretionary Settlement on the appointment of shares or cash to Alice based on the IHT rate applicable on 17 September 2019. Apply the IHT rules to calculate that the IHT rate was 0% on 17 September 2019 and conclude that no IHT will become payable on the appointment of shares or cash to Alice.

Nearly all candidates were aware that an IHT exit charge would arise on the appointment of cash or shares out of the Ryan Family Discretionary Settlement and that this would be based on the IHT rate applicable on the last 10 year anniversary which fell on 17 September 2019.

It was pleasing to see that many candidates did not just state that the value of the trust assets on 17 September 2019 fell below the IHT nil rate band but also went on to consider the settlor's chargeable transfers in the 7 years prior to creating the trust, before concluding that a 0% IHT rate would apply on any appointment of cash or shares to Alice.

Identify and calculate the CGT liability that will arise for the trustees of the Ryan Family Discretionary Settlement on the appointment of shares to Alice and the CGT liability arising on the sale of the shares to Sigma Global plc. Identify that holdover relief is not available on the appointment of the shares to Alice and that she will not pay any UK CGT on a personal sale of the shares due to her residence status.

Nearly all candidates were aware that a CGT liability would arise for the trustees on the appointment of shares to Alice or on a sale to Sigma Global plc, but quite a lot of candidates miscalculated the gain as they used the incorrect base cost for the shares.

The question stated (in Exhibit D) that Edward claimed holdover relief on the transfer of the shares into trust, so it was necessary for candidates to use the value of his shareholding in 1983 (which was provided in Exhibit E) in order to calculate the trust's base cost. However, many candidates mentioned the holdover relief claim but then still continued to use the value on 17 September 1999 to calculate the base cost of the shares, resulting in an incorrect calculation of the capital gain on the appointment to Alice and the sale to Sigma Global plc.

Most candidates were aware that CGT holdover relief was not available on the appointment of shares to Alice as she was not UK resident, but not all were aware that she was not liable to UK CGT on a personal sale of the shares due to her residence status, so some incorrect CGT computations were produced by those candidates.

Identify that the trust created by Margaret Ryan was originally an A&M Trust and identify and calculate the IHT exit charge that will arise when each beneficiary is 25 years old using the 18-25 trust rules.

The pre-seen information referred to the trust that Margaret Ryan created in September 2000 as an Accumulation & Maintenance Trust. Therefore, it was clear that most candidates had revised the issues relating to A&M trusts and were aware of the options available to trustees when the changes to trust tax rules were announced on 22 March 2006.

Nearly all candidates understood that the trust had become an 18-25 trust and that this meant no IHT principal charges would arise on each ten year anniversary and that IHT exit charges would arise on appointments of capital to beneficiaries after they are 18 years old.

However, many candidates were unable to explain that this was because the beneficiaries were entitled to capital at the age of 25 under the original trust terms and action had been taken to close the class of potential beneficiaries by 6 April 2008 and no further beneficiaries were added after 21 March 2006. As a result, many reports included very confusing explanations or no explanation at all to clarify why the trust had become an 18-25 trust instead of falling fully into the relevant property trust regime.

The calculation of the IHT exit charges arising on Isabella and Matthew's 25th birthdays was well prepared by most candidates with only small rounding errors arising in some cases.

Not all candidates prepared an IHT exit charge calculation for Polly's entitlement on her 25th birthday, so did not mention that 100% APR would be available in respect of Buttercup Field by 18 January 2026 and this also meant that they were unable to provide the trustees with a full comparison of the net cash available to each beneficiary if no action was taken.

Identify that the rule in Crowe v Appleby applies so no CGT will arise when Isabella and Matthew are 25. Apply the rule to correctly calculate the CGT charge that will arise on 18 January 2026.

Nearly all candidates were aware that the rule in *Crowe v Appleby* applied to defer the capital gain on Buttercup Field and Valley Park until 18 January 2026 when all three beneficiaries became absolutely entitled to the trust assets. In some cases, candidates thought that the rule only applied to land, not buildings as well, so incorrectly treated the full gain on Buttercup Field alone as deferred until 18 January 2026 and treated two-thirds of the gain on Valley Park as arising on 14 August 2025.

Most candidates used the correct CGT base cost for Buttercup Field and Valley Park and were aware that the creation of the trust in September 2000 would have been a PET for Margaret, so holdover relief would not have been available to her. However, the CGT liabilities calculated by a lot of candidates were not completely correct as many allocated the trust's annual exemption against the land and property gains, forgetting that this would already have been utilised against the gain arising on the sale of the shares in Bonds Chemists plc to Sigma Global plc.

Identify the availability of CGT holdover relief in respect of Isabella, Matthew & Polly's shares of the capital gain arising on 18 January 2026. Correctly conclude that holdover relief is only available to defer Polly's share of the gain on Valley Park under Section 260 TCGA 1992 and that all three beneficiaries' capital gains on Buttercup Field maybe deferred under Section 165 TCGA 1992.

The majority of candidates identified that holdover relief could only be claimed in respect of Polly's share of the gain on Valley Park but not in respect of Isabella and Matthew's share, as there was not a corresponding IHT charge for each of them on the same date.

However, most candidates also incorrectly applied the same treatment to the Buttercup Field capital gain, as very few were aware that the whole of the gain on Buttercup Field on 18 January 2026 could be held over because it qualified for 100% APR on that date and therefore could be treated as a business asset for the purposes of the relief.

Identify that the trustees may use their power of appointment to apply Polly's interest to her on 14 August 2025. Identify and calculate the impact of exercising the power of appointment on Polly's IHT exit charge and on the availability of CGT holdover relief on the whole of the gain on Valley Park.

Nearly all candidates explained that the trustees of the A&M trust had the power to appoint Polly's interest to her early and most explained that it would be beneficial for all three beneficiaries to receive their entitlement at the same time in order to allow Isabella and Matthew's share of the gain on Valley Park to be held over.

As very few candidates had picked up on the fact that holdover relief was already available on Buttercup Field on 18 January 2026, hardly any candidates referred to the fact that relief would still be available if the appointment was made early but due to the fact that a corresponding IHT charge would arise for all three beneficiaries on the same event.

Some candidates suggested trustees appoint the assets to the beneficiaries on a date earlier than 14 August 2025 and credit was given to these candidates so long supporting calculations or explanations were provided.

Relevant Advice and Substantiated Recommendations

Advising the trustees of the Ryan Family Discretionary Settlement on the IHT implications of appointing cash or shares to Alice and that no IHT exit charge is due with either option.

This recommendation was dealt with very well and most candidates correctly advised that there would be no IHT exit charge due on an appointment of cash or shares to Alice.

Advising the trustees of the Ryan Family Discretionary Settlement on the CGT implications of appointing the cash or shares to Alice including consideration of the availability of holdover relief and her personal tax position. Recommending Alice obtains Swiss tax advice on the implications of the sale.

This recommendation was generally dealt with well and most candidates were able to quantify the difference in the CGT liability with each option and conclude that less UK tax would become payable if the shares were appointed to Alice to sell personally.

Credit was given to candidates who pointed out that the trustees would not have sufficient funds to settle the CGT liability on the appointment of shares and would need to either obtain an indemnity from Alice who would then pay the CGT once she had received the proceeds of sale from Sigma Global plc or that the trustees would need to retain and sell a number of shares to provide the funds for settling the CGT on appointment.

Only a few candidates recommended that Alice seek advice on the Swiss tax implications of the sale of the shares.

Advising the trustees of the Margaret Ryan A&M Trust on the interaction of IHT exit charges and CGT holdover relief when each beneficiary becomes entitled to the assets of the trust.

Most candidates provided good recommendations to the trustees of the A&M trust in relation to the interaction of the Isabella and Matthew's IHT exit charges and holdover relief in conjunction with the rule in *Crowe v Appleby* in respect of Valley Park. However, the IHT charge on Polly's entitlement was overlooked by many candidates, so a full comparison of each beneficiary's net cash position after their 25th birthdays was not provided in many cases.

In the main, candidates were also generally unaware that full holdover relief was available on Buttercup Field as a business asset on 18 January 2026, so even those who provided a comparison of the net cash position for each beneficiary after their birthdays, did not get the figures completely correct.

Advising the trustees of the Margaret Ryan A&M Trust on exercising their power to appoint Polly's share of the trust to her at the same time as Isabella and Matthew and how this will impact on the claims for CGT holdover relief and Polly's IHT exit charge. Recommending that the trustees use the power of appointment to equalise the net cash position of the beneficiaries.

Nearly all candidates recommended that the trustees exercise their power early and most stated this should be done when Matthew and Isabella became entitled on 14 August 2025 in order to allow an IHT exit charge and a CGT charge to arise on the same date for all three beneficiaries, therefore allowing holdover relief to be claimed in full.

Hardly any candidates recalculated Polly's IHT exit charge and noted that APR could no longer be claimed in her calculation, but a lower IHT charge would still arise as fewer quarters would have elapsed since her 18th birthday.

Most candidates did refer to the trustees request to ensure that each beneficiary is in the financial position and provided supporting calculations of their net cash position. It was also pleasing to note

that many candidates correctly explained the time limits for the holdover claims to be made, the IHT reporting requirements and the payment dates for the IHT exit charges.

Taxation of Larger Companies and Groups

General comments

In this question a listed plc sought tax advice on a proposed acquisition and two alternatives for raising the money to fund the acquisition and some costs for the development of a new business. A total of £3,000 million had to be raised to fund two automotive factory conversions (one in UK and one in France), the acquisition of an existing battery manufacturer in Belgium, and to pay a tax arrears settlement in a fictitious country, Sealand. Two alternative methods of funding (equity investment or loans) were proposed. Candidates were required to write a report, for the Board of the client, on the direct tax issues arising with recommendations on the best course of action.

Two of the issues to be addressed (equity or loan funding, and acquisition of shares or assets) were explicitly referred to in the question, whereas the candidates were required to identify for themselves three other issues arising (how to push finance down to operating and sub-holding companies, restrictions on interest deductions, and the impact on the group's carried forward losses of a change of ownership that occurred only under the equity funding option).

The majority of candidates did no more than reproduce any knowledge that occurred to them in relation to acquisitions and debt/equity funding without giving due consideration to the potentially wider issues relevant to the question or making connections between issues.

All candidates specifically addressed the two explicitly mentioned issues in the question. The majority also addressed the possible restriction of interest deductions. However, only a minority identified the issue of how to provide funds to subsidiaries and very few identified the potential restriction of losses as a result of the change of ownership that arose under the equity funding option.

Many candidates devoted too much time to discussing (often in great detail) issues that arise in the circumstance of the question, but which would have no bearing on the decisions to be taken by the client on how to make the acquisition and which funding option to take. These issues included transfer pricing and the controlled foreign companies (CFC) rules, both of which were discussed by many of the candidates. Some candidates also discussed Pillar 2, corporate residence and withholding taxes. While a passing reference to these matters was not penalised, extensive explanations of, for example, CFC gateways could lead to a candidate being penalised for including irrelevant material.

Because most candidates overlooked one or more issues, it was difficult for them to provide well-argued advice and recommendations. The majority did advise on and make recommendations on the two explicit issues, but few did so in respect of finance push-down.

Structure

Most candidates produced an answer that complied with the requirement to produce a report in an appropriate format with an introduction, executive summary and main body of report. Most candidates also set out their conclusions and recommendations in an executive summary.

A small number of candidates produced large amounts of irrelevant material (transfer pricing, CFC, WHT, corporate residence etc) and produced no relevant calculations or calculations that were irrelevant and flawed.

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

Identification and Application

Only a small minority of candidates identified all five issues discussed in the model answer.

Discuss method of pushing finance down to operating and holding companies

Although a few candidates considered how to fund the subsidiary companies making the investments, acquisition and other expenditure, almost none addressed this issue comprehensively or realised that debt push-down produced broadly equal and opposite interest receipts and deductions.

Consider cost of equity or loan investment

This required a simple calculation and comparison of the net (after tax) cost of dividends and interest on the external funds to be raised. Almost all candidates addressed this issue, with varying degrees of success. Some did the calculations but not the comparison. Others were hampered by an incorrect technical assertion that fixed rate dividends were tax deductible.

Purchase assets or shares in proposed acquisition target

This issue was well-addressed by most candidates, and many scored highly for comprehensive and straightforward analysis of the issue. A large number of candidates discussed (frequently technically incorrectly) Stamp Duty, SDLT and VAT, but were not penalised so long as these discussions did not detract from the main direct tax considerations. Several candidates overlooked the requirement of the question and instead discussed an asset acquisition by a UK tax-resident company in order to access UK tax reliefs.

Restrictions on tax relief for interest

While nearly all candidates correctly identified the possibility of corporate interest relief restrictions, and many also correctly mentioned the reactivation rules few also referred to possible “unallowable purpose” disallowances, nor to the impact of taking debt relief in France and/or Belgium.

Change of ownership and restriction of losses

This issue was almost universally overlooked. While most candidates recognised there would be a change of ownership on an equity investment, only one or two made the link with the possible “major alteration” arising from the type of car produced as result of the UK factory conversion and possible denial of loss relief. Such an oversight, especially for those candidates recommending an equity investment (of which there was a sizable minority) would be a fundamental failure in the advice given.

Relevant Advice and Substantiated Recommendations

Nearly all candidates produced definite advice and recommendations, though most did not address all the areas set out in model answer.

Buy shares or assets of Belgian battery company

This area was discussed by every candidate and most gave definite advice. Many candidates correctly identified that the direct tax consequences of buying shares, or assets through a Belgian Newco, were identical and the difference rested only on incidental tax costs and any risk identified through due diligence.

Whether to borrow money or issue new share capital

Nearly all candidates advised on this question. However, only a minority constructed well-presented arguments based on consideration of the issues referred to above. Many of the conclusions were based on incorrect technical analyses, irrelevant or incorrect assertions concerning issue including withholding tax, corporate residence of a listed plc and tax-deductibility of dividends.

Whether to take interest deductions in UK or overseas

Only a minority of candidates addressed this area of advice appropriately. Failure to do so arose from not identifying the issue of debt push-down, incorrect calculations and not comparing the after-tax cost of interest and dividends. Of those who did consider this issue, very few addressed the option of talking relief in Belgium or France. However, a large number of candidates suggested taking interest relief in the UK for the amounts that would otherwise be disallowed in Sealand, without properly considering whether relief would in fact be available in the UK.

VAT and Other Indirect Taxes

General Comments

The question required candidates to prepare a draft report for the tax partner at their firm, with a view to advising the Board of Coua Ltd, an active trading holding company operating in the high-tech manufacturing industry.

There were two parts to the question.

Firstly, candidates needed to assess the tax impact on the proceeds of sale by Coua Ltd of a subsidiary company, Eggton Ltd. The relevant taxes were VAT and Corporation Tax ("CT"). While the VAT issues involved the exemption for financial services as well as recent case law in respect of input VAT recovery for sell-side professional fees, the CT issue was principally substantial shareholding exemption ("SSE").

The second part of the question required a comparison between two options:

Option 1 envisaged the use of a dormant company, Norrisco Ltd, which was part of the VAT group, to purchase a site and then build out and operate a high-tech research and manufacturing plant. VAT, CT, Capital Allowances, and SDLT, as well as customs duties, were relevant.

Option 2 involved the acquisition of 100% of the shares in an unconnected company, Unumiota Ltd, operating in the clothing sector. VAT, CT, and Stamp Duty were relevant.

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

The vast majority of candidates set out the reports in a clear and logical fashion, and virtually all of them included a useful Executive Summary. By and large structure was not a problem. A very small number of candidates set the report out in letter form, which is a major fault.

Identification and Application

Sale of Eggton Ltd: VAT

The vast majority of candidates correctly identified that Option 1 involved the exempt sale of shares in the subsidiary and most handled the consequences correctly. A surprising number of candidates – even good ones – missed the fact that intermediary supplies of shares are also exempt. This led them to overstate the value of VAT at risk. Foreign and specified supplies were also not well-handled.

The discussion of input VAT recovery for professional costs was generally quite good, with the best answers noting the wider context of the case law, the fact that *Hotel La Tour Ltd* is a live appeal, and suggesting a review of the position after the Supreme Court decision was handed down.

To summarise, a large number of candidates were vaguer on the detail of the exemption for share sales and on the input VAT recovery rules than might have been expected, albeit credit was given for a reasoned overall discussion.

While the VAT issues were reasonably well-handled, there was a disappointing failure to clearly identify the precise impact on the proceeds of the sale.

Sale of Eggton Ltd: CT

This section was very well-handled by the vast majority of candidates. Only a very small number failed to identify SSE and to work out what that implied for the sale proceeds.

The best candidates clearly identified the relevant SSE conditions and confirmed they were met, but only a very small number missed the point or handled it very poorly. In this case, the impact on the proceeds was more clearly stated than was the case for VAT.

Option 1: VAT and Customs Duties

Most candidates correctly identified the impact of the option to tax on the land to be purchased, and that it could be recovered in full as the group would be making onward taxable supplies. Even so, a surprisingly large number of candidates failed to mention the Capital Goods Scheme at all, which weakened their responses. Only a very small number of candidates noted the risk of the entire project failing without any supplies having been made, i.e.: the *Ghent Coal* scenario. This was somewhat surprising, given the clearly stated high-risk nature of the Option. Most candidates handled the import VAT administration issues well, and gave sensible advice as to PIVA, etc. Credit was given for other practical suggestions, e.g.: reminders about EORIs etc. Most candidates also handled the customs duties point well, making sensible and helpful comments.

Option 1: Corporation Tax

Generally-speaking this area was well-handled by candidates. Only a small number failed to recognise the availability of either or both of the various R&D reliefs and Capital Allowances. Quite a number reached more generous allowance values than the model answer allowed. However, credit was always

given for a solid and well-reasoned effort to assess the R&D and Capital Allowances impacts of Option 1, even where these diverged from the model Answer. Quite a large number of candidates failed to note that RDEC is itself subject to CT, which led them to overstate its value. Nonetheless, the balance was so clearly in favour of Option 1 on the numbers that this made little difference to the conclusions.

Option 2: VAT and CT

VAT on acquisition of Unumiota Ltd was generally well-handled by candidates, with most correctly noting that input VAT recovery would not be possible. Disappointingly few candidates noted the need for an onward business activity and suggested a management services agreement, etc, but better answers did a good job here. The financiers' input VAT was correctly addressed by the vast majority of candidates. CT was rather disappointing for this section. While it was not a major factor in the decision, and was not technically challenging, only the better candidates clearly and unambiguously noted the opportunities for group relief, and the fact that no CT deduction of the associated costs would be permitted as they were capital. Those candidates who structured their answer to address all relevant tax heads spotted this point more easily and scored more highly as a result.

Option 1 SDLT and Option 2 Stamp Duty

All but the weakest candidates handled this aspect well. However, a few otherwise good candidates miscalculated the SDLT by apparently misunderstanding the implications of the option to tax for the gross price. A small number of candidates missed either one or the other, of SDLT or Stamp Duty. These are relatively simple taxes/duties and should not be overlooked.

Relevant Advice and Substantiated Recommendations

Sale of Eggton Ltd: VAT; CT and Other

This aspect was generally well-handled by candidates, though CT was generally more clearly discussed than VAT. The majority correctly sought to provide advice and make recommendations based on the calculation of the proceeds they had carried out, reflecting that SSE meant that CT did not affect the value, and that any VAT loss was so small as to be insignificant. A small number of candidates correctly noted the basis for apportioning inputs between UK and non-UK share sales, and provided good advice as to how to handle that. Disappointingly, very few candidates identified the potential for differential VAT treatment under the two options depending on the Supreme Court decision in *Hotel La Tour Ltd* (due to be heard June 2025). However, given the relative value of the VAT at risk this did not significantly alter the conclusions.

Comparison of Expected Return under Options after Tax Implications (VAT/CT/SDLT/SD)

Most candidates did attempt to make a comparison between the options both on tax and commercial grounds, and some answers were very good. Some of the answers were rather perfunctory in making their comparisons, but the majority did at least seek to engage with the point. However, many answers were less clear in addressing the key question than they might have been. Most candidates correctly identified the significant CT savings under R&D reliefs led to Option 1 being more attractive, but credit was given for well-reasoned efforts suggesting Option 2 on risk grounds.

Comparison of Expected Cash Return under Options

This aspect was rather disappointingly handled. A surprisingly high number of candidates, including some who scored highly on the I&A section, failed to get to grips with the numbers and provide a clear and revised figure for both options.