



Formation 2 Taxation

Educators Briefing 2018/19

Review of performance of 2018 Exams

Overall

In general, the exam papers at both April and August sittings were answered to a good standard and candidates who passed did so on the basis that they demonstrated a good understanding of the fundamentals examined. A recurring theme across scripts of candidates who did not pass, was a lack of understanding of the fundamentals of the examinable taxes. For these candidates there was clear evidence of poor preparation for the exam.

April

Question 1

This question required the preparation of an Income Tax Computation for 20 marks. While the overall standard was good, too many candidates struggled with some of the simple aspects of the question as follows:

- Calculation capital allowances
- Classification of interest income
- Calculation of the tax at the correct rate
- Availability and calculation of reliefs and tax credits

Many candidates who presented their answers in the prescribed format also scored high marks on applying the income tax rules in arriving at the correct taxable income figure and applying correct tax credits. This demonstrates that practicing questions and laying out answers in the prescribed format contributes to understanding the application of the tax rules.

Question 2

This question was a fairly standard computation of Case I together with a requirement to calculate the corporation tax liability. The overall standard of answers was good except for the calculation of capital allowances. Capital allowances are a very important relief for capital expenditure and it is vital that students at this level are able to correctly calculate the available capital allowances.

Question 3

This question contained a number of parts which tested a broad range of topics across the syllabus at a basic level.

- (a) The part tested the application of incorporation relief at a very simple level i.e. how to apply the relief. A surprising number of students attempted complicated step processes for calculating the gain when in fact the gain was given in the question. Additionally, some students attempted to calculate the value of shares and the gross value of the assets transferred when in fact these figures were also given in the question.
- (b) This part required the calculation of the assessable BIK which most students had no difficulty with.

- (c) This part was poorly answered with many students not taxing the correct amount of maintenance income. Additionally, some students did not identify the correct standard rate band or tax credits.
- (d) There were very few correct answers to this part of the question. Many students did not understand how to calculate the income subject to PRSI and the income subject to USC.
- (e) Some students scored full marks on this question while others wrote lengthy paragraphs which scored low marks. In this type of question for 4 marks, brief and concise explanation is what is required.

Question 4

This question tested the application of CGT rules to a variety of disposals. Part (a) and (c) were generally well answered. Some students struggled to explain whether the relief applied or did not apply in part (b) and some did not give any explanation at all, which is evidence of a lack of study of this topic. Those students who were able to explain why the relief applied or did not also managed to correctly calculate the tax and scored high marks for this part.

Question 5

Very few students chose to answer this question and many who did ignored part (a) and (b). There were a few good answers to the losses question in part (c) but generally marks were very low here demonstrating a lack of understanding of the rules and an ability to apply them. Part (d) was answered well by those who attempted this question.

Question 6

This was the most popular question of Section B and many students obtained the full 10 marks for part (a). Some students do not understand how to deal with foreign trade and this resulted in lower marks in part (a). Students didn't perform as well on parts (b) and (c).

August

Question 1

This question required the preparation of an Income Tax Computation for 16 marks. Some very good answers were received, however the general standard of answers were poor. Many students did not avail of the marks for some of the simple aspects of the question such as:

- Basic Case V computation
- Calculation of share option gain
- Treatment of maintenance payments
- Calculation of the tax at the correct rate
- Availability and calculation of reliefs and tax credits

Many candidates who presented their answers in the prescribed format also scored high marks on applying the income tax rules in arriving at the correct taxable income figure and applying correct tax credits. This demonstrates that practicing questions and laying out answers in the prescribed format contributes to understanding the application of the tax rules.

Part (b) of this question was very poorly answered.

Question 2

This question was a fairly standard computation of Case I together with a requirement to calculate the corporation tax liability. The overall standard of answers was fair to average in this sitting. Again, students appear to struggle with the calculation of capital allowances and hence missed out on valuable marks.

Answers to part (b) and (c) were generally quite poor with only a small few students passing these parts.

Question 3

This question contained a number of parts which tested a broad range of topics across the syllabus at a basic level.

- (a) Some students struggled to explain the difference between exports and intra-community supplies. It should be noted that no marks are available if the answer given is wrong so students should resist writing a full page if they do not know the answer. In this type of question for 4 marks, brief and concise explanation is what is required.
- (b) The part tested the application of retirement relief at a very simple level i.e. how to apply the relief. A surprising number of students attempted complicated step processes for calculating goodwill and chargeable business assets when in fact the information was given in the question.
- (c) This part of the question was generally well answered.
- (d) There were very few correct answers to this part of the question. Many students did not understand how to calculate the income subject to USC.
- (e) This part was generally well answered by those who attempted it.

Question 4

This question tested the application of CGT incorporation relief in part (a), Income Tax commencement rules in part (b) and capital allowances in part (c).

- (a) As in the summer paper, some students set out complicated step by step processes for calculating amounts which were given in the question. This demonstrates poor understanding of the basics.
- (b) Many students demonstrated a good understanding of the commencement rules. Some, however did not correctly identify the first year in business and therefore did not score many marks.
- (c) There were a worrying number of students who had very little knowledge of the rules for calculating capital allowances. In particular, some calculated the wear and tear allowance as a percentage of tax written down value.

Question 5

This question was the least popular question in Section B. Very few students scored well on this question despite the fact that part (b) only required a loss memo to demonstrate an understanding of how the losses are used.

Conclusion

Overall, in both sittings, students who were prepared for the exam performed well. A worrying number of students presented answers that were far below the standard expected in professional exams and this was particularly evident in Section A. All students are strongly advised to practice questions in advance as a means of testing their ability to apply knowledge and understanding and to study all topics across the syllabus. Additionally, students should use the prescribed format for Income Tax and Corporation Tax computations.

Syllabus Changes

There are no changes to the syllabus content for 2018/2019.

Format

Section A contains 3 compulsory questions. Questions 1 and 2 each mainly, but not necessarily exclusively, address one of the main tax heads on the syllabus. These questions will be mostly

computational. Question 3 contains a number of short questions examining a variety of syllabus topics.

Section B contains 3 questions from which students must choose 2 to answer. Each of the questions, 4, 5 and 6 will examine a variety of topics either within one tax head or across multiple tax heads.

Education Focus 2018/2019:

The importance of a comprehensive understanding of the tax rules and the ability to calculate the tax liability under each tax head cannot be stressed enough. There will always be a higher proportion of marks in this exam for computational aspects and students are strongly advised to practice questions as a means of preparing for the exam.

Additionally, please note the following:

- Candidates need to have a knowledge of all areas of the syllabus. “Question Spotting”, as referred to in previous reports is a dangerous strategy. Therefore, no areas should be ignored if a student wants to be well prepared for the exam.
- Candidates in the past, it seems, neglected to read articles published by the Institute and examiner. Articles published in previous years should not be ignored.
- Candidates should be aware of the most recent legislative changes as they are clearly very topical.
- Candidates should be aware of current issues and in particular be familiar with relevant articles published in the Student ebulletin, Accountancy Plus and on the CPA website www.cpaireland.ie