



THE INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS IN IRELAND

PROFESSIONAL LEVEL - ADVANCED TAXATION

EDUCATORS BRIEFING DOCUMENT 2020/21

Formation 2 Taxation – August 2020 Feedback

While the overall standard was disappointing for the August exam sitting this year, it is important to note that the examiner and moderator did not feel that this should be attributed to students being required to complete this exam online. This was of course considered when reviewing scripts and formatting was not a key consideration. However, many answers provided throughout the paper for theory questions, were generally too SHORT, demonstrating a lack of depth in understanding of some basic concepts. Students should take care to note the marks being awarded for theory questions and to consider the level of detail provided in their answers accordingly. For example, providing one sentence/bullet point is insufficient when answering a theory questions for 4 marks.

Question 1

This was a standard Income Tax computation that features on the paper each year. Similar to previous years, some students showed a good knowledge of the basic format of an Income Tax computation and performed reasonably well in this regard. Students demonstrated knowledge of the correct application of tax rates and tax credits. However, most failed to adequately address some of the main issues in the question, such as;

1. Tax relief available for pension contributions – students should ensure that all workings are shown when identifying the relief available.
2. Exemptions available for certain sources of income (artists exemption and children's allowance) – students should not simply ignore these sources of income, reasons for excluding such income should be provided.
3. Many correctly identified the BIK rate for motor vehicles but failed to identify the exemption from BIK for electric vehicles.
4. The distinction between Irish and foreign rental income was not considered by most students.
5. Year of marriage relief was poorly answered, with many students not attempting this part of the question at all.

Workings should be clearly presented for all parts of the Income Tax calculation. These do not need to be very detailed but should show workings for amounts included in the Income Tax computation that required calculation.

Question 2

Similar to previous years, question 2 was a standard Case I computation together with a requirement to calculate the corporation tax liability for the company. The overall standard was reasonably good and similar to question 1, students demonstrated a good knowledge of the basic tax adjusted profit and corporation tax computation.

Capital allowances calculations were generally correct and well presented, although most did not apply the replacement option in respect of the balancing charge.

While most students correctly identified the exemption for Irish dividend income, most did not apply the correct rate of tax to the foreign dividend income (section 21B).

Adjustments not correctly answered by most students included patent royalty expenses and keyman insurance.

Students that attempted the Capital Gains calculation made reasonable attempts at this but missed the issue of development land.

Where the pay and file/compliance rule were attempted, many failed to identify that this was a small company. Some students incorrectly applied Income Tax rules.

Question 3

This question contained 5 parts covering a range of topics similar to previous years. This question sets out to examine students understanding of topics across all taxes.

- a) Termination payment exemptions – was generally well answered with most demonstrating good knowledge and application of the exemption calculations. Some struggled with identifying the income/benefits taxable as part of the termination payment.
- b) Basis of assessment in final year along with PRSI and USC calculation – knowledge of cessation rules and PRSI and USC calculations were good. A common mistake made was not correctly identifying the assessable income for PRSI and USC, i.e. excluding the deduction for pension contributions for both, and excluding Case IV for USC only.
- c) Share disposal calculation – students had a good opportunity to answer this in Excel format, however most failed to use this. Indexation factors were well answered, and good attempts were made at identifying the number of shares.
- d) VAT distance selling rules – this was very poorly answered by most students, with little detail included in answers.
- e) Purpose of taxation/Smiths Canons of Taxation – many did not answer and again the level of detail from those that did answer was inadequate.

Question 4

Similar to previous years, this question tested the application of capital gains tax rules to various disposals.

Part (a) was well answered with many students correctly identifying indexation factors, reliefs and part disposal. A common mistake was not identifying marginal relief and not providing the conditions to claim entrepreneur relief.

Part (b) was only answered by a small number of students and while those that did answer made reasonable attempts at (i) and (ii), most did not identify and give the conditions for participation exemption. The annual exemption was also incorrectly included by some when calculating the CGT liability.

Question 5

This question examined four areas across Income Tax and Corporation Tax. While it was a popular question, students clearly choose it as they felt that they could answer parts (b) and (c). These parts were well answered, but part (a) and (d) were either poorly answered or not attempted and as a result, students did not score well on this question overall. Students should consider this when choosing a question in Section B.

- (a) Capital Allowances – most simply calculated 12.5% capital allowances and did not identify the specific allowances/reliefs available for intangible assets and energy efficient equipment.
- (b) Residence – this was generally well answered, and students demonstrated a good understanding of the residence tests, and inclusion of the correct taxable sources of income. Some students proceeded to calculate the Income Tax liability for 2019. The question stated that this was not required and some therefore used up exam time providing an answer for which no marks could be awarded.
- (c) Badges of Trade – also generally well answered, with many awarded full marks for this part.
- (d) Group Loss Relief – not attempted by many who answered this question. For those that answered reasonable attempts were made. A common error was not applying relief based on the corresponding accounting period.

Question 6

This question focused on VAT. This was the most popular question in Section B and students were clearly very well prepared for a VAT liability calculation. This part (a) was well answered and students scored well. Common errors in this part included not applying the 2/3rds rule (although many students did) and not applying self-accounting rules to the intra-community acquisition. Input credits were well answered with some errors on the calculation of VAT where VAT inclusive amounts were given for expenses.

Part (b) was also well answered, although some students did get confused between multiple and composite supplies. Again, this was an area where some answers were too short.

Part (c) many students failed to identify the relief for business offering gifts (section 19(1)(g)) and only considered the input credit available for the purchase of the gift by the business. As a result, students generally did not score well in this part.

Overall

Emphasis should be placed on practicing past exam paper questions. Students should be very well prepared for presenting their answers to Income Tax and Corporation Tax computations. Students who present comprehensive answers to their questions benefit from achieving good marks in Section A. Students who fail to do this will generally struggle to pass the paper overall. It is expected that the introduction of the Foundation Taxation will help with this. Students should also practice the detail provided for theory questions.

Syllabus Changes

The change to Advanced Taxation introduces some changes to the module syllabus for 2020/21. One significant change to the syllabus for 2020/21 is the inclusion of Capital Acquisitions Tax and Stamp Duty.

Format of 2021/21 Exam Paper

The 2020/21 exam paper will take a similar format to August 2020. Section A will contain 3 compulsory questions with a large amount of computation, particularly in Question 1 and Question 2. One question within section A will again cover a number of topics from the various tax heads on the syllabus. Section B will contain 3 questions, with students required to choose 2 questions to complete. Topics included in these exam questions will cover a variety of the syllabus.

Education Focus 2020/21:

While the syllabus is broad, it is important to emphasize that students are expected to be able to present tax calculations clearly, including workings and explanations where required. This is particularly the case for Income Tax and Corporation Tax computations. It is essential that students practice past exam paper questions in preparation for their exam sitting. As mentioned in previous years, it is recommended that students read articles relevant to the syllabus published by the Institute in Student ebulletin, Accountancy Plus and on the CPA website www.cpaireland.ie