



Formation 2 Taxation

Educators Briefing 2019/20

Review of performance of 2019 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. As in previous years, 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 as well as evidence of leaving out whole sections of the syllabus.

April

Question 1

This question required the preparation of an Income Tax Computation for 20 marks. The overall standard was quite good, an improvement on previous years. However, some candidates continue to struggle with the basics of preparation of an income tax computation, such as:

- Classification and calculation of income – Schedule D case IV and V, Schedule E, Schedule F
- Availability and calculation of reliefs and tax credits
- Calculation of tax at the correct rates

Those 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 standard computation of Case I together with a requirement to calculate the corporation tax liability. The overall standard of answers was good. Some students still struggle with the calculation of capital allowances. Relief for capital expenditure is important for tax payers and it is vital that students at Formation 2 level are able to correctly calculate the available capital allowances. Part (b) of the question dealt with losses and was a relatively straight forward question on how losses can be surrendered to other group companies. The standard of answers to this part of the question was poorer.

Question 3

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

- (a) Basis of assessment and calculation for income tax and capital gains tax for a non-domiciled individual. This was generally well answered. Students should resist the temptation to write everything they know about a topic and should be guided by the specific requirements of the question and the marks allocated.
- (b) Calculation of SCSB exemption and taxable termination payment. This was well answered.

- (c) Wear and tear and balancing adjustment in respect of motor vehicles: Many students answered this part correctly however, as mentioned previously, some students demonstrated lack of understanding of the application of the rules for capital allowances.
- (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, a brief and concise explanation is what is required.

Question 4

This question tested the application of CGT rules to various disposals. Part (a) was very well answered. Part (b), less so and some students did not know the conditions to be satisfied for Entrepreneur Relief and struggled to explain whether the relief applied or did not apply. Part (c) tested the application of rules in relation to disposals of chattels which some students had difficulty with. 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

This question was not a popular choice amongst students on the day. Some of those who did attempt this question ignored part (a) and (b) which tested filing and payment dates for individuals and commencement rules. 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). The standard of answers to part (b) was poor or was omitted, evidencing poor time planning during the exam.

August

Question 1

This question required the preparation of an Income Tax Computation. Some very good answers were received. Those who scored lower marks in this question failed to adequately deal with the following:

- Application of commencement rules
- Capital allowances
- Relief for retirement annuity contributions
- Income tax loss relief
- 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 mixed. Some students scored very high marks, evidence of practicing past exam papers. Again, students appear to struggle with the calculation of capital allowances and hence missed out on some easy marks.

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 calculation of the car BIK was generally well answered.
- (b) The standard of answers to this part was poor. A surprising number of were not able to explain the conditions a company needed to satisfy in order to qualify for the participation exemption.
- (c) This part of the question was generally well answered.
- (d) Calculation of PRSI and USC was improved in this exam
- (e) A surprising number of students left this part out.

Question 4

This question tested the application of CGT retirement relief and entrepreneur relief in part (a), incorporation relief in part (b) and disposal of personal property in part (c).

- (a) While almost all students who attempt this question correctly calculated the gain before any relief, the majority of the marks were going for explanation with reasons, which many students left out.
- (b) Some students set out a complicated step by step processes for calculating amounts which were given in the question. This demonstrates poor understanding of the basics.
- (c) There were a worrying number of students who did not know how to deal with some basic disposals.

Question 5

This question was the least popular question in Section B. Some students who chose to answer this question skipped part (a). Part (b) was better answered but part (c) was not. There was a clear indication that students had not covered much of the syllabus content which was tested in this question. Cherry picking of topics is not recommended.

Question 6

This was the most popular question of Section B and many students obtained the full 10 marks for part (a). The standard of answers to part (b) was poor or was omitted, evidencing poor time planning during the exam.

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 2019/2020.

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 2019/2020:

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