



Think Ahead

Taxation – UK (TX-UK) March/June 2024 Examiner's report

The examining team share their observations from the marking process to highlight strengths and weaknesses in candidates' performance, and to offer constructive advice for those sitting the exam in the future.

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General comments

This examiner's report should be used in conjunction with the published March/June 2024 sample exam which can be found on the [ACCA Practice Platform](#).

The Taxation (TX-UK) exam is offered as a computer-based exam (CBE). The model of delivery for the CBE exam means that candidates do not all receive the same set of questions. In this report, the examining team provide constructive guidance on how to answer the questions whilst sharing their observations from the marking process, highlighting the strengths and weaknesses of candidates who attempted these questions. Future candidates can use this examiner's report as part of their exam preparation, attempting question practice on the ACCA Practice Platform, reviewing the published answers alongside this report.

- Section A objective test questions – four specific questions from this sitting of the exam.
- Section B objective test case questions – a detailed review of one case from this section in the exam.
- Section C constructed response questions - guidance on how to complete all published CR questions from the sample exam.

Section A

Section A questions aim to provide a broad coverage of the syllabus, and future candidates should aim to revise all areas of the TX-UK syllabus, rather than attempting to question spot. The following four questions are reviewed with the aim of giving future candidates an indication of the types of questions asked, guidance on dealing with exam questions and to provide a technical debrief on the topics covered by the specific questions selected.

Example one

Phillip did not file his self-assessment tax return for the tax year 2022-23 until 31 March 2024. This was two months after the 31 January 2024 due date.

What is the latest date that HM Revenue and Customs (HMRC) can begin a compliance check enquiry into Phillip's self-assessment tax return for the tax year 2022-23?

- A. 31 January 2025
- B. 30 April 2025
- C. 31 July 2025
- D. 31 March 2025

This question is on syllabus area A5(a) *Explain the circumstances in which HM Revenue & Customs can make a compliance check into a self-assessment tax return.*

The correct answer is **B - 30 April 2025**, because the return was filed late and this is the first quarter day after the anniversary of the submission.

Example two

Mina's salary for the tax year 2023-24 was £68,000.

Mina's employer provided her with a loan throughout the tax year 2023-24, and this resulted in a taxable benefit of £1,500.

During the tax year 2023-24, Mina contributed £3,000 into her employer's occupational pension scheme. Her employer contributed a further £7,000 into the scheme on Mina's behalf.

What were Mina's earnings for the purpose of calculating the class 1 national insurance contributions payable for the tax year 2023-24?

- A. £68,000
- B. £69,500
- C. £72,000
- D. £65,000

This question is on syllabus area B6(a)(i) *Explain and compute national insurance contributions payable. Class 1 and 1A NIC*

The correct answer is **A - £68,000**. Class 1 national insurance contributions (NICs) are payable by both Mina and her employer on her earnings. Mina's earnings for this purpose is her salary of £68,000. The loan provided to Mina by her employer is a benefit and will be subject to Class 1A NICs, the contribution to the occupational pension scheme which Mina pays is not deductible when assessing earnings and the employer contribution is excluded from the definition of earnings.

The incorrect answers are as follows:

- B. £69,500 incorrectly includes the taxable benefit of the loan;
- C. £72,000 incorrectly adds the employer's pension contribution and deducts Mina's own contribution; and
- D. £65,000 deducts Mina's own contribution to the pension fund.

Example three

Yuna made a gift of cash into a discretionary trust on 31 July 2019. Yuna died on 1 May 2023.

Inheritance tax (IHT) was payable as a result of this lifetime gift, both during Yuna's lifetime and as a result of her death.

Match the relevant dates to indicate when the IHT liabilities in respect of the cash gift would have become due, both during Yuna's lifetime and as a result of Yuna's death.

Dates		In Yuna's lifetime	As a result of Yuna's death
31 January 2020	1 November 2023		
30 April 2020	30 November 2023		
31 January 2021	30 April 2024		

This question tests syllabus area D4(a) *Identify who is responsible for the payment of inheritance tax and the due date for payment of inheritance tax.*

The correct answer for the lifetime gift is **30 April 2020** (being the later of 30 April following the end of the tax year of the transfer and six months after the end of the month of transfer) and as a result of Yuna's gift **30 November 2023** (being six months from the end of the month of death).

Example four

Hamza is registered for value added tax (VAT) and calculates his VAT liability using the flat rate scheme.

For the year ended 31 March 2024, Hamza's sales (net of VAT) of standard rated goods were £100,000, with a further £30,000 of zero rated sales. The amount of standard rated purchases (net of VAT) was £15,000.

The relevant flat rate scheme percentage for Hamza's business is 11%.

What was Hamza's VAT liability for the year ended 31 March 2024?

- A. £14,300
- B. £16,500
- C. £14,520
- D. £13,200

This question tests syllabus area F3(a)(iii) *Understand the operation of, and when it will be advantageous to use, the VAT special schemes: Flat rate scheme.*

The correct answer is **B - £16,500**. Total sales including VAT are £150,000 ($100,000 \times 120/100$ plus 30,000) and the flat rate percentage of 11% applied to this is £16,500.

The incorrect answers are:

A £14,300 - flat rate percentage applied to the net figure of standard and zero rated sales $11\% \times (100,000 + 30,000)$;

C. £14,520 – standard rated purchases deducted from standard rated sales before being grossed up and the flat rate percentage applied $((100,000 - 15,000) \times 120/100 + 30,000) \times 11\%$

D. £13,200 – where the flat rate percentage is applied only to the gross standard rated sales $(100,000 \times 120/100) \times 11\%$

Section B

Example of a case scenario

Expansion Ltd disposed of land and property during the year ended 31 March 2024.

Investment properties

An investment property was sold on 10 June 2023. The property had been purchased during January 2006. Details are as follows:

	£
Sale proceeds	436,000
Purchase price	315,250
Legal fees on purchase	4,750

The indexation factor from January 2006 to December 2017 was 0.438.

Freehold factory

On 15 January 2024, Expansion Ltd sold a freehold factory, with the disposal resulting in a chargeable gain of £159,000. The gain was calculated as sale proceeds of £294,000 less an indexed cost of £135,000.

Expansion Ltd has made four acquisitions during the 18 month period prior to the disposal of the freehold factory:

Date of purchase	Description of asset
2 November 2022	Freehold warehouse
20 January 2023	Fixed plant and machinery
3 March 2023	Movable plant and machinery
17 May 2023	Inventory

The freehold factory and all four acquisitions have been, or are, used for business purposes by Expansion Ltd.

During the year ended 31 March 2024, Expansion Ltd incurred the following expenditure in respect of the factory prior to its sale on 15 January 2024:

	£
Cost of replacing the factory's windows which were leaking	8,700
Cost of a new boundary wall around the factory	7,100

Land

On 21 March 2024, a hectare of land was sold for £143,000. Expansion Ltd had originally purchased four hectares of land in February 2018 for £330,000. The market value of the

unsold three hectares of land as at 21 March 2024 was £385,000. Prior to the disposal, Expansion Ltd spent £24,000 clearing and levelling the one hectare of land which was sold.

Question one

What is the allowable loss on the disposal of Expansion Ltd's investment property on 10 June 2023?

- A. £24,160
- B. £17,330
- C. £0
- D. £10,499

This question is on syllabus area E3(b) *Explain and compute the indexation allowance available using a given indexation factor.*

The correct answer is **C - £0**, because indexation cannot increase a loss. The proceeds of £436,000 less the cost of the investment property (£315,250) and less the legal fees on purchase (£4,750) give an unindexed gain of £116,000. The indexation allowance is £140,160 ($320,000 \times 0.438$) but is restricted to £116,000.

The incorrect answers are:

- A. £24,160 which does not restrict the loss ($116,000 - 140,160$)
- B. £17,330 which excludes the legal fees as a deduction ($(436,000 - 315,250) - (315,250 \times 0.438)$)
- D. £10,499 which deducts the legal fees from the original cost rather than adding to the cost ($(436,000 - (315,250 - 4,750)) - (310,500 \times 0.438)$)

Question two

As regards the disposal of the freehold factory, how much will Expansion Ltd have to invest in a replacement asset in order to benefit from a partial rollover relief claim (more than £0, but less than the full chargeable gain)?

- A. Between £135,001 and £293,999
- B. Between £1 and £293,999
- C. Between £135,001 and £158,999
- D. Between £1 and £158,999

This question is on syllabus area E3(g) *Explain and apply rollover relief.*

The correct answer is **A - Between £135,001 and £293,999.**

If the investment is at any amount less than £135,000 then the proceeds less the reinvestment will be more than the gain of £159,000. Therefore the range of reinvestment may be anywhere above £135,000 up to just below £294,000 in order to benefit from partial roll over.

Question three

Which one of Expansion Ltd's four acquisitions qualifies as a replacement asset for the purposes of making a rollover relief claim in respect of the chargeable gain on the disposal of the freehold factory?

- A. Freehold warehouse
- B. Fixed plant and machinery
- C. Movable plant and machinery
- D. Inventory

This question is on syllabus area E3(g) *Explain and apply rollover relief.*

The correct answer is **B - Fixed plant and machinery**. This asset has been purchased within the period of one year before and three years after the date of the sale of the freehold factory on 15 January 2024 and is in a qualifying class of asset.

The incorrect answers are:

- A. Freehold warehouse - was purchased more than one year before the disposal of the freehold factory
- C. Moveable plant and machinery, although a non-current asset, is not in a qualifying class of asset
- D. Inventory is a current asset and therefore not a qualifying class of asset

Question four

How much of Expansion Ltd's expenditure in respect of the freehold factory during the year ended 31 March 2024 will have been included in the indexed cost figure of £135,000?

- A. £7,100
- B. £8,700
- C. £15,800
- D. £0

This question is on syllabus area E3(a) *Compute and explain the treatment of chargeable gains.*

The correct answer is **A - £7,100** being the cost of a new boundary wall which is capital expenditure. The replacement of the leaking windows is revenue expenditure.

The incorrect answers are:

- B. £8,700 since the replacement of leaking windows represents revenue, not capital, expenditure
- C. £15,800 both revenue and capital costs included
- D. £0 does not include either of the costs

Question five

What cost figure will have been used in calculating the chargeable gain on the disposal of Expansion Ltd's one hectare of land on 21 March 2024?

- A. £89,375
- B. £113,375
- C. £95,875
- D. £106,500

This question is on syllabus area E3(a) *Compute and explain the treatment of chargeable gains*.

The correct answer is **B - £113,375**. The cost of the one hectare of land sold is proportionate to the current market value (CMV) at the time of the sale. The total CMV for all four hectares at the time of sale is £528,000 (143,000 + 385,000), the proportion relating to the one hectare sold is therefore 143,000/528,000. Applying this to the original cost gives £89,375 $((143,000/528,000) \times 330,000)$ and added to this is the cost of clearing and levelling of £24,000 which only applies to the one hectare sold giving a total cost of £113,375.

The incorrect answers are:

- A. £89,375 being the cost without adding the clearing and levelling
- C. £95,875 where the cost of clearing and levelling is added to the original cost $((330,000 + 24,000) = 354,000)$ and therefore is spread across the whole four hectares $((143,000/528,000) \times 354,000)$.
- D. £106,500 where the original cost is split proportionate to the number of hectares sold $(1/4)$ plus the costs of clearing and levelling $((330,000 \times \frac{1}{4}) + 24,000)$

Section C

Triple A Ltd

The 10-mark higher skills question involved Afia, Afua and Akua who had been in partnership since 6 April 2009. The partners were considering incorporating the partnership's business on 6 April 2023; the new limited company to be called Triple A Ltd.

With this type of question, it is very important that candidates read the question and requirements carefully, and to note which tax figures have been provided to them. In this case, they were given the total income tax liabilities and NICs (for all three partners) if the partners continued to trade as a partnership. They were also provided with the total amount of class 1 employee and employer NICs in respect of the director's remuneration to be paid by Triple A Ltd. A number of candidates, however, wasted time by calculating NIC figures.

Overall, this question was reasonably well answered. Those candidates who tried to use the provided partners' income tax figure as a basis for calculating the income tax payable by directors, invariably did not achieve a pass mark.

A surprising number of candidates had difficulty, despite a very similar example being available in the [higher skills article](#). It is important to appreciate the interactions that can arise in a higher skills question, and reading published articles and practising exam standard questions will help to this end.

Requirement – 10 marks

Assuming the business is run as a company from 6 April 2023:

- (i) Calculate the tax payable by the three individuals; and**
- (ii) Calculate the tax payable by Triple A Ltd; and**
- (iii) Compare the total tax and NIC liabilities for the partners (as shown in the scenario) and the tax as calculated at (a)(i) and (ii) plus the NIC (as shown in the scenario for Triple A Ltd) and state if there is any saving.**

Tax payable by the three individuals – 5 marks

This was a very straightforward computation provided candidates ignored the pension contributions made by Triple A Ltd, and used the correct rate of tax for the dividend income.

There was a mark for knowing that the pension contributions were exempt, but this was only given if this point was indicated by either a zero entry or an explanation. Many candidates did not do this, thereby missing the very easy mark.

Because all three directors had the same income, the correct approach was to do the one income tax calculation and to then multiply the end result by three. Quite a number of

candidates wasted time (even if it was just a matter of copy and paste) by producing three separate, but exactly the same, computations.

Tax payable by Triple A Ltd – 3.5 marks

The corporation tax working for Triple A Ltd was somewhat more difficult, although there were a number of perfect answers.

Candidates had to start with the company's taxable total profits (figure provided), then deduct the total director's remuneration, class 1 employer NICs and pension scheme contributions (all these figures were provided). It was necessary, however, to multiply the provided figures for director's remuneration and pension scheme contributions by three – the number of directors.

Dividends should be ignored, although quite a few candidates deducted them.

Another mistake sometimes made was to deduct the class 1 employee NICs as well as, or instead of, the employer NICs. If this was done, the half mark for correctly deducting just the employer NICs was not given.

Provided the correct figures were deducted, candidates would then have had a revised taxable total profits figure of below £50,000. The corporation tax calculation was therefore at the single rate of 19%.

If any of the figures were missed, candidates would have been faced with a more difficult marginal relief calculation for equivalent marks. With no dividend income, this could have of course been calculated as £50,000 at 19%, with the balance of profits charged at 26.5%.

Comparison – 1.5 marks

The comparison meant pulling together figures from both the scenario as well as ones calculated.

The comparison was between the total tax and NIC liabilities for the partners if they had continued to trade as a partnership (these figures were all provided) and the total income tax liabilities of the directors (calculated), the corporation tax liability of Triple A Ltd (calculated) and the class 1 employee and employer NICs (figures provided).

Most candidates achieved at least some marks here, with many gaining the full 1.5 marks. The most common mistake was to omit the corporation tax payable by Triple A Ltd.

Dada

The income tax question was based around Dada, who ceased employment on 31 December 2023. Dada was also self-employed, preparing accounts to 31 March each year.

Requirement (a) – 6 marks

Calculate Dada's revised tax adjusted trading profit for the year ended 31 March 2024.

This requirement was generally quite well answered, and there were a number of perfect responses.

Commencing with Dada's tax adjusted trading profit based on his draft accounts, candidates needed to adjust for:

- Advertising expenditure;
- Expenditure incurred on client entertaining;
- The cost of Dada's office (the business being run out of one of the six rooms in Dada's private house); and
- Capital allowances.

Candidates should note that the model answer consists of just seven lines of workings, plus a total figure. None of the adjustments warranted separate workings.

Many candidates did not appreciate that the client entertaining, being not allowable, was not deducted in arriving at Dada's revised tax adjusted trading profit. The use of office deduction also caused some difficulty; only the business proportion of the total running costs was deductible ($2,400 \times 1/6 = £400$).

The three capital allowance workings were simply:

- $1,200 - 400 = £800$ for 1 mark (the sale of a laptop computer where a short-life asset election had been made).
- $2,700$ at $100\% = £2,700$ for 1 mark (the purchase of a new laptop)
- $14,000$ at $18\% \times 80\% = £2,016$ for 2 marks (Dada brought his private car into business use, with the car used 80% for business journeys).

Candidates need to be aware that with such straightforward capital allowance workings, there is no need for a full capital allowances layout with headings, separate columns and carry forward figures.

Requirement (b) – 7 marks

Calculate Dada's taxable income for the tax year 2023-24.

This requirement was generally very well answered, and there were again a number of perfect answers.

One very easy mark that some candidates missed was the mark for including Dada's trading profit as calculated in part (a).

It was pleasing to see that the deductions for Dada's contributions into his employer's occupational pension scheme, and for the mileage allowance in respect of Dada's business use of his private car, were generally correctly dealt with.

Candidates found more difficulty with the treatment of a suit which Dada had purchased for meeting his employer's clients. No deduction is usually given for the cost of clothing for work.

Dada also received three items of other income. Of these, only the interest from UK Government securities (gilts) was taxable. The other two (a premium bond prize and interest on the maturity of savings certificates from NS&I (National Savings and Investments)) were exempt. Although there was only a half mark for the correct tax treatment of each item, these should have been very easy (and quick) marks to obtain. Many candidates, however, struggled with the three items, sometimes not obtaining any of the three half marks at all if the tax treatment for each item was reversed.

As for part (a), none of the adjustments warranted separate workings. When answering this style of requirement, candidates need to keep workings as clear as possible, and then pull everything together into an overall summary computation.

Requirement (c) – 2 marks

State two advantages for an employee if their employer had payrolled the taxable benefits provided to the employee.

The answer to this requirement was disappointing. The advantages of having benefits payrolled are:

- Income tax should not be underpaid, so the employee will not have any unexpected tax liabilities; and
- There is no need for an employee to declare the benefits on their self-assessment tax return.

Too many candidates seemed to think that payrolling benefits would mean the employee would not have to calculate the amount of benefit, despite this being done by the employer regardless of whether a benefit is payrolled or not.

Deimos Ltd, Elara Ltd & Fenrir Ltd

The corporation tax question was generally very well answered, with many candidates scoring high marks. The question involved three unrelated limited companies; Deimos Ltd, Elara Ltd and Fenrir Ltd.

Requirement (a) – 2 marks

Identify Deimos Ltd's accounting periods throughout the period 1 May 2022 to 29 February 2024.

Deimos Ltd had ceased trading on 30 September 2023, preparing its final financial statements for the 17-month period 1 May 2022 to 30 September 2023. On 1 October 2023, the company's shareholders passed a resolution to commence winding up procedures. The winding up of Deimos Ltd was completed on 29 February 2024.

There was 1 mark for the period 1 May 2022 to 30 April 2023, a half mark for the period 1 May 2023 to 30 September 2023 (the period of account to 30 September 2023 being split into two accounting periods), and a half mark for the period from 1 October 2023 (from the date of the final financial statements) to 29 February 2024 (completion of winding up).

This requirement was generally well answered, although many candidates either did not appreciate that there was an accounting period running from 1 October 2023 to 29 February 2024, or they had just the one period running from 1 May 2023 to 29 February 2024.

Requirement (b) – 9 marks

Calculate Elara Ltd's taxable total profits for the year ended 31 December 2023.

Elara Ltd's summarised statement of profit or loss for the year ended 31 December 2023 was provided. Commencing with the company's operating profit, candidates had to make a number of adjustments and entries to calculate the company's taxable total profits. The adjustments and entries included:

- The disallowance for a lease of a car;
- A disallowance for entertaining clients (with a zero adjustment for the gifts of calendars to customers);
- A deduction for interest payable;
- A deduction for capital allowances;
- Adding in interest receivable and a chargeable gain; and
- A deduction for qualifying charitable donations.

With this type of answer containing both additions and deductions, candidates should be very careful to indicate which is which. A single column approach with deductions included as such on the spreadsheet avoids any confusion. It is then just a matter of using the SUM function to get to a figure for taxable total profits. Those candidates who added up their total figure on a cell-by-cell basis (for example, A1 + A2 + A3 etc) invariably had problems when it came to negative entries, and it was sometimes difficult for markers to determine whether a figure was a plus or a minus.

None of the adjustments or entries really needed separate workings. The capital allowances were simply £220,000 at 100%, and £30,000 at 18% (for 1 mark in each case), and the chargeable gain was calculated as the disposal proceeds of £204,000 less the reinvestment of £168,000 (for 1.5 marks).

Overall, however, this requirement was generally very well answered. The only aspects which consistently caused problems were the two interest figures and the chargeable gain. It was

somewhat surprising to see a number of candidates adding the figure for interest payable and deducting the figure for interest receivable. Such carelessness cost a half mark in each case. With the chargeable gain, it was clearly stated that Elara Ltd had made a claim to rollover the gain, so this should have represented a fairly easy 1.5 marks.

Many candidates forgot to make the deduction for the qualifying charitable donations, even where they had correctly added them back earlier in their computation.

Requirement (c) – 4 marks

Calculate the amount of corporation tax which Fenrir Ltd will save for the year ending 31 March 2024 by taking the three measures prior to 31 March 2024.

Faced with a relatively high corporation tax liability for the year ending 31 March 2024 compared to previous years, Fenrir Ltd was planning to take three measures prior to the end of the company's accounting period on 31 March 2024. These were:

- Purchasing four new zero CO₂ emissions cars;
- Paying a dividend to the company's shareholders; and
- Paying rent for the six-month period 1 April to 30 September 2024 in advance.

There were quite a number of perfect answers to this requirement, although a number of candidates did not appreciate that the payment of a dividend and the advance rental payment would not impact on Fenrir Ltd's corporation tax liability for the year ending 31 March 2024. This is because dividends are paid out of post-tax profits, and (given the accruals basis of accounts preparation) the rent paid in advance would not be deductible for the year ended 31 March 2024.

Having worked out the adjustments, candidates then needed to calculate the tax saving. This could either be done by multiplying the adjustment by the corporation tax rate of 25%, or working out a revised corporation tax liability and comparing this to the previous liability. Well prepared candidates were able to answer this requirement quite quickly (this is a benefit of question practice), scoring a fairly straightforward four marks and saving some time. However, a correct answer for the car aspect - along with the 25% tax saving - was sufficient to score half of the available marks.