

Corporate taxation confidence

Amber Cottrell has advice for exam candidates who are preparing for and tackling ATT Paper 4 on corporate taxation.

It may be tempting for students to translate ATT Paper 4 'Corporate Taxation' as 'Corporation Tax' before assuming it was a paper on exactly that subject. This may not be unreasonable, but those who do will find the first day of their studies comes as a something of a shock. In fact, Paper 4 has a broad syllabus that includes unincorporated businesses, income tax, VAT and capital gains tax as well as corporation tax.

The first thing to note is that the whole of the ATT Paper 2 'Business Taxation' syllabus is assumed knowledge for Paper 4 except for three topics:

- farmers' averaging;
- the herd basis;
- the National Insurance contributions annual maxima rules.

The Paper 2 knowledge is the foundation on which the Paper 4 knowledge is built. Thus, it is highly recommended that, before starting Paper 4, students have already studied for or sat Paper 2. Those who are exempt from Paper 2 will need to ensure that their assumed knowledge is up to date before starting to study the topics that are new for Paper 4.

The business lifestyle

The breadth of the syllabus enables the examiner to test business lifecycle questions. A question that focuses on a sole trader who has decided to incorporate might include issues such as:

Key points

- The whole of the ATT Paper 2 'Business Taxation' syllabus is assumed knowledge for Paper 4.
- Aspects of business lifecycle questions will include closing year rules, capital allowances, incorporation, gift and entrepreneurs' relief.
- Read the question to ensure the answer is relevant.
- Each element of a question has a separate mark allocation so identify and answer the easy parts.
- Provide detailed explanations when required.
- Worked calculations will show underlying principles.
- Do not leap to conclusions.



- the closing year rules;
- capital allowances on cessation;
- incorporation relief;
- gift relief;
- entrepreneurs' relief;
- sole trader loss reliefs; and
- starting to trade as a company.

The next question might be on group losses, including consortium relief. Yet another question could test the student's knowledge on the extraction of profits from a company. In all, there is a mind-boggling mix of topics at this level.

The difficulty this creates makes it important to apply the proper set of tax rules to the correct transaction based on the person carrying out the transaction: is it a company or an individual? This may sound basic but spending some initial time correctly identifying whether, say, a company or individual has sold the shares referred to in the question will make a fundamental difference to the answer. If it is the former, the answer should focus on the substantial shareholding exemption. If it is the latter, the student should be concentrating on capital gains tax and entrepreneurs' relief. Either scenario could be tested in Paper 4.

The right requirement

At the risk of stating the obvious a careful read of the question should also ensure that it is the one answered. Despite this being probably the most oft-quoted piece of exam advice, it is surprising that students continue to answer questions they *think* have been set.

As an example, in the November 2017 exam numerous students answered the corporation tax question (testing what is deductible) by citing income tax rules. The examiner

commented that, although the answers were accurate, the candidates had referred to a different requirement and so gained few marks.

The breadth of the syllabus also requires a wide range of topics to be studied. To optimise the chances of passing, the well-prepared student must study the whole breadth of the syllabus. There will always be some topics that cause difficulty but omitting one in its entirety is perilous.

A recent examiner's report said:

'Candidates can make the choice to abandon VAT if they wish, but it will still form part of the exam.'

Many candidates also ignore ethics and law. Do take the time to learn the VAT, ethics and legal elements of the syllabus.

Perpetual change

The examiner does recognise that students struggle with the constant change from one tax to another and from the individual taxpayer to the corporate taxpayer. The requirements are usually broken down and each has a separate mark allocation. Use these allocations to decide how long to spend on each part of each requirement – and be ruthless. There are easy marks and hard marks on every question. Omitting a whole part of a question will result in the candidate missing out on even the easy marks.

In the November 2017 paper the examiner's report specifically noted:

'Candidates that spread their efforts and energy across the questions performed well.'

Another obvious piece of advice is 'Do as you are told'. To this end, I must stress that students should ensure they read the verb in the questions and do what it says. If the examiner has asked you to explain, a list of unannotated numbers will not suffice and will score few marks, if any. A requirement to 'explain' needs at least some words, even if they are brief.

The examiner includes only the information needed to answer the question and will guide the candidate through the scenario for their own benefit. Take the hints and act on them.

In May 2018, 15% of candidates wasted time writing about the conditions to be eligible for capital treatment in a company purchase of own shares despite the scenario stating that the conditions had already been explained to the client in full. The same question specified that National Insurance contributions could be ignored, yet numerous students wrote about this. No marks are deducted for not doing as you are told (there is no negative marking) but by default the student then has less time to do what the examiner has asked them to do.

Easy peasy

Make it easy for the examiner to mark your script and remember the following points.

Planning point

The examiner only includes information needed to answer the question and will guide the candidate through the scenario for their own benefit.

- Thinking something is not enough; the answer must be written down in the script.
- Do not be tempted to leap to a conclusion. For example, in an eight-mark question about substantial shareholding exemption with a degrouping charge a short answer that just states 'It is exempt because the substantial shareholding exemption applies to the share sale and to the degrouping charge' is not going to score well. It might be enough for a one-mark requirement, but it will fall short for eight. The student must clearly show a calculation of the degrouping charge, how it interacts (in other words, add it to the share sale proceeds) with the gain on disposal of the shares and then explain briefly why both are exempt under this provision.
- In an adjustment to profits computation, make a note of those things that require no adjustment – either put in each item as a separate line in the computation with a zero or dash to indicate no adjustment is required or add a note under the computation stating the items for which no adjustment was required.
- Include workings. A credit will be given for method. The likelihood of the student matching the examiner's model answer for a computational question is slim. However, if only a small mistake is made at the start of a computation it is still possible to obtain nearly full marks due to the follow-through marking, even though every number after the error will be different from the examiner's. However, the marker can give credit here only if they can follow the workings and labels.
- If asked for a date, provide the day, month and year. Telling a client in practice that the tax is due 'in October' would not be acceptable and nor is it acceptable in the exam.
- Answer each requirement separately and clearly label the answer as part 1(a), 1(b) and so on. The examiner has criticised candidates for not doing this in the past.

Summary

To do well in this exam, students need to prepare by revising their Paper 2 knowledge. They should study the whole syllabus, including VAT, and take time to identify the taxpayer as an individual or a company.

Then they should answer the question set and do as they are told. Use the mark allocation to manage the time available and determine how detailed the answer should be.

Finally, attempt every part of every requirement and show the workings. ●

Author details

Amber Cottrell ACMA, CTA is a senior tutor at Tolley Exam Training. She can be contacted on 020 3364 4500 or examtraining@lexisnexis.co.uk. Visit www.tolley.co.uk/products-and-services/exam-training.



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