

Stage 2 Chartered Tax Consultant 2011 Exam Report – 24th May 2011

Assessment structure

Stage 2 Chartered Tax Consultant is assessed through a mix of 2 home assignments (15% each) and 1 exam (70%) consisting of 2 papers sat under “open-book” conditions. Each assessment must be passed individually (50%), and in the exam participants also have to achieve a minimum of 40% in the legislation and computation questions.

The April 2011 exam was based on the following architecture:

Exam-Paper 1 – 35%

Section 1 Case Study A	11.66%	Income Tax and CGT
Section 2 Case Study B	11.66%	Corporation Tax and VAT
Section 3 Computations (4 out of 8)	11.66%	IT, CGT, CT, SD, CAT, VAT and Accounting for Tax

Exam-Paper 2 – 35%

Section 1 Case Study A	11.66%	CAT/SD & Corporation Tax
Section 2 Case Study B	11.66%	CAT/SD & VAT
Section 3 Legislation (4 out of 8)	11.66%	TCA 1997, CATCA 2003, VATA 1972, SDCA 1999

Performance Statistics

Summary:

- 55 candidates completed in total
- 1 unable to sit due to work commitments

Assignments:

- Average assignment 1: 78%
- Average assignment 2: 84%

Examination:

- Average Paper 1: 55%
- Average Paper 2: 66%
- Average for combined Papers 1&2: 60%
- Lowest mark for combined Papers 1&2: 41%
- Highest mark for combined Papers 1&2: 77%
- Median for combined Papers 1&2 mark: 59%

Overall results:

- Average overall (exam & assignments): 66%
- Lowest overall mark: 51%
- Highest overall mark: 83%
- Median overall mark: 66%

Pass rate:

- **92%**

Commentary on Performance

As evidenced with other specialist courses run by CAI, early adopters tend to be more committed to a course, so although we are very pleased with the pass rate, we would not expect this to continue at such a high rate into future sessions of the programme. However the high level of interaction with participants and support given has shown up in the exam scripts.

Most candidates showed high levels of competency in tax computations and tax legislation across the tax heads. In general residency rules for individuals (CGT, split year treatment) and companies (place of central management and control) were well answered which, as a key focus of Stage 2 of Chartered Tax Consultant, is a good outcome.

As could be predicted, the more recently qualified (as Chartered Accountants) candidates had better exam technique (completed more parts of questions) while the more experienced candidates showed better application of the facts to the specific answer (commercial awareness).

Paper 1

Q1: Case Study A

Identifying the residency position and the implications was generally well answered. Candidates had the most difficulty dealing with the CGT computations on the sale of the CRH shares and in particular the scrip dividends. Candidates poorly answered all sections that related to self-assessment obligations and relevant surcharge/potential penalty issues. This is a feature of the exam as a whole and not just this case study. Split year residence and the proprietary director issues were well dealt with.

Q2: Case Study B

Company tax residence was generally well answered although, in general, candidates could have done with reaching a conclusion rather than merely listing the relevant considerations. Candidates did not consider the French tax issues by and large and did not consider the branch issue. Recommending that foreign tax advice be sought was also not considered. R&D credits were generally well dealt with although the weakest element was qualifying expenditure. The Case I calculation and the tax computation were generally well done.

VAT was very weak. The best known section was the composite supply rules. Marks were missed by not being methodical as well. Marks were lost by not asking questions like - did we claim it as allowable? What is the legislation? Do we need to take any action? Candidates may have scored better if they had answered these questions but the approach was not methodical.

Candidates are reminded that legislative references should be included throughout the exam answer.

Q3: Computations

The computational questions were generally well answered. The weakest part of these answers was the VAT aspect.

Paper 2

Q1: Case Study A

The treatment of the dividend paid by Dutch Shops was answered very well – good knowledge was shown of section 21B TCA 1997 and case law and use of section 396A TCA 1997 losses. Not many mentioned that a claim is needed for section 21B.

The restriction on losses carried back caused some confusion. The trading income in 2009 was €215,000 and the amount of losses is restricted to 50% of this figure i.e. €107,500 in this case. In general, there was good presentation of group structures and loss memos.

Not all answers stated that Top Chocs was a small company for corporation tax pay and file obligations. Most students did not mention that Dutch professional advice should be obtained on stamp duty or similar taxes on the transfer of the apartment. In dealing with the doctrine of lapse issue, most students correctly mentioned section 98 Succession Act 1965 but in some cases it was stated erroneously as section 98 CATCA 2003. The interlocking of contracts was picked up well in Q5 but few mentioned the Stamp Duty Statement of Practice 2/90.

Q2: Case Study B

Overall this was very well answered. Section 86 CATCA 2003 dwelling house relief was well covered. Some papers included a limited interest for Pat on the remaining interest in the house his uncle left him. This is not an interest in possession and CAT is not due until Pat's aunt dies. Section 117 Succession Act 1965 was well covered and the testate/intestate treatment effect on a child's legal right well answered. Some papers forgot to advise that legal advice should be taken.

VAT on developed land was well covered (i.e. section 4B (3) VATA 1972) but many candidates omitted to advise the client that he must register for VAT as he is now an accountable person. The VAT issues on Bríd's lease to the medical practice were complex and not many papers got all sections correct. The "connected person" provisions were understood but the automatic cancellation of the waiver under section 7B VATA 1972 was not mentioned in most papers which meant that some answers thought Bríd could still opt to tax

Q3: Legislation

All papers scored highly on these questions. Some common issues included:

- Q1.2 – the surcharge table in the CAT Act was misread – note the actual surcharge is 10% in this case and not 30%. It seems as if the undercharge % and surcharge % were mixed up
- Q3.4 Income tax exemption for Lotto is section 216 TCA 1997, whereas some candidates stated section 613 TCA 1997, which refers to CGT
- A minority of answers were not precise enough with legislation – for these questions the subsections should be stated

Presentation

Very good effort was made here. Most papers set out the correct format and writing skills were well used in layout, paragraphs and clear conclusions to the client/manager.

For future examination of Stage 2, the following points should be noted by candidates:

Full marks are awarded only where the candidate applies the facts of the case study in their answer e.g. marks were only awarded where the specific compliance deadline dates were identified relevant to the case study rather than a general discussion of tax compliance deadlines. Candidates are required to identify if a company is classed as small or large for corporation tax payment purposes and state the preliminary tax due dates appropriate to the company's year-end as set out in the case study.

Candidates must be aware of general commercial issues such as the requirement to seek advice for tax issues arising in another jurisdiction or when legal advice should be sought.

Calculations are required in the case study questions and must be correctly addressed e.g. the calculation of company group loss/charge relief, restriction of losses on late submission of corporation tax returns and the calculation of a share history for CGT purposes were not correctly answered by many candidates who displayed strong competency in Q3 of Paper 1 (computations).

VAT is an important component of the programme and candidates must demonstrate a clear understanding of this tax head in the exams. Marks were lost for not showing a methodical approach to VAT issues - i.e. ask is the expenditure allowable for VAT purposes, what is the appropriate legislation, do we need to take action? Candidates would have scored better if they had answered these questions as Chartered Tax involves the skill of application of knowledge to facts at all times rather than general technical discussions which, though possibly a correct technical analysis, show little appreciation of the practical application to a specific fact pattern, which is what would be understandably expected by a "real-life" client/employer.