Think Ahead

F6 UK Revision Test Answers

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Section A

QUESTION 1

Due date: **30 June 2018**

Persons responsible: **The trustees**

QUESTION 2

Output VAT of £69 and input VAT of £100

Output VAT £415 x 20/120	£69
Input VAT 600 x 20/120	£100

QUESTION 3

£4,000

	£
Gain	23,800
Less current year loss	(10,400)
Net current year gain	13,400
Less loss brought forward (balancing amount)	(2,100)
	11,300
Less annual exempt amount	(11,300)
Taxable gain	0
Loss carried forward £(6,100 – 2,100)	**4,000**

QUESTION 4

1 October 2016 to 30 September 2017

The first accounting period in a long period of account is always 12 months in length. The second accounting period is the remainder of the period of account (here it will be four months from 1 October 2017 to 31 January 2018).

QUESTION 5

Tax evasion is illegal, whereas tax avoidance involves the minimisation of tax liabilities by the use of any lawful means.

QUESTION 6

10%

The due date for payment was 31 January 2018. The penalty date is 30 days after the due date for the tax. There is a penalty of 5% of the unpaid tax for failing to pay by the penalty date plus a further penalty of 5% of the unpaid tax as the payment is more than five months after the penalty date but not more than 11 months after the penalty date.

QUESTION 7

Both Class 1 and Class 1A.

QUESTION 8

£143,000

The proceeds not reinvested in the new asset are £(184,000 – 143,000) = £41,000. Since this is greater than the gain of £38,600, no rollover relief is available. The cost of the replacement warehouse is therefore £143,000.

QUESTION 9

Amendment 31 January 2019, Compliance check 10 August 2018

Willard may amend his return for 2016/17 within 12 months after the filing date which for this purpose is taken to be 31 January 2018 (not the paper filing date of 31 October 2017, even though he has made a paper return). HMRC must give written notice of its intention to start a compliance check by the first anniversary of the actual filing date as the return was delivered on or before the due filing date, so in this case the notice must be given by 10 August 2018.

QUESTION 10

£667

	£
Interest received 30 September 2017	
£25,000 × 4% × 6/12	500
Less relief for accrued interest (amount taxable on seller) for 1 April 2017 to 31 July 2017	
£25,000 × 4% × 4/12	(333)
Interest received 31 March 2018	
£25,000 × 4% × 6/12	500
Total taxable 2017/18	**667**

QUESTION 11

Two

Samuel was previously resident in the UK and will be present in the UK for between 46 and 90 days. He will be UK resident on this basis if he has three ties with the UK so two is the maximum number of ties which Samuel could keep with the UK without being treated as resident in the UK.

QUESTION 12

A verbal promise to pay a friend's debt

An outstanding endowment mortgage

An outstanding endowment mortgage is not deducted because the associated life assurance policy will pay off the loan. A verbal promise to pay a friend's debt is not deducted because it is not legally enforceable.

QUESTION 13

£74,000

In 2016/17, the loss relief claim is not capped against the trading profit of £24,000. Relief against other income is capped at £50,000 since this is greater than £((92,000 + 24,000) × 25%) = £29,000. The total loss relief claim is therefore £(24,000 + 50,000) = £74,000.

QUESTION 14

Nil

Payments on account are not required because the relevant amount for 2016/17 is £(300 + 320) = £620 which does not exceed £1,000.

QUESTION 15

They do not form a group for either group relief or chargeable gains purposes.

There is not a 75% holding between Thirty Ltd and Forty Ltd so there cannot be either a group relief group or a chargeable gains group with Forty Ltd and Ten Ltd.

Section B

Zoe and Luke

QUESTION 16

The transfer made by Zoe in 2011 must be grossed up because Zoe paid the IHT arising.

Taper relief will be available when computing the additional IHT on Zoe's transfer made in 2014.

Zoe's transfer in 2011 will be cumulated with her transfer in 2014 when working out the lifetime IHT on the 2014 transfer because the 2011 transfer is a chargeable lifetime transfer.

Luke's transfer in 2016 became chargeable to IHT because he died within seven years of making it.

QUESTION 17

£710,000

	£
Net chargeable transfer (AEs already used)	633,000
IHT	
£325,000 × 0%	0
£308,000 × 20/80	77,000
£633,000	77,000
Gross chargeable transfer £(633,000 + 77,000)	**£710,000**

QUESTION 18

£24,000

	£
Gross chargeable transfer	200,000
IHT on death (nil rate band already used)	
£200,000 × 40%	80,000
Less taper relief (3 to 4 years) £80,000 × 20%	(16,000)
	64,000
Less lifetime tax £200,000 × 20%	(40,000)
Additional IHT payable	**24,000**

QUESTION 19

£259,000

	£
Gift	270,000
Less: marriage exemption	(5,000)
annual exemption 2015/16	(3,000)
annual exemption 2014/15 b/f	(3,000)
Potentially exempt transfer	**259,000**

QUESTION 20

£75,000

	£
Unused nil rate band at wife's death £(312,000 – 240,000)	72,000
Amount to transfer £325,000 × 72,000/312,000	**75,000**

Luna Ltd

QUESTION 21

Indexation allowance can reduce a gain to nil but not create a loss – **TRUE**

Indexation allowance can increase an unindexed loss – **FALSE**

Indexation allowance cannot increase or create a loss although it can reduce a gain to nil.

QUESTION 22

£6,925

	£
Proceeds	53,400
Less cost	(36,800)
	16,600
Less indexation allowance $\frac{273.8 - 216.8}{216.8} \times$ £36,800	
	(9,675)
Gain	**6,925**

QUESTION 23

£14,694

	No. of shares	Indexed cost £
Acquisition	16,000	32,000
Indexed rise $\frac{273.8 - 223.6}{223.6} \times$ £32,000		7,184
		39,184
Disposal	(10,000)	(24,490)
	6,000	**14,694**

QUESTION 24

£13,125

	No. of shares	Cost £
Acquisition	5,000	7,500
Bonus 1 for 1	5,000	0
	10,000	7,500
Rights 1 for 4 @ £2.25	2,500	5,625
	12,500	**13,125**

QUESTION 25

£19,500

£33,000 $\times \frac{(£6.50 \times 10{,}000)}{(£6.50 \times 10{,}000) + (£4.50 \times 10{,}000)}$ **£19,500**

Zim

QUESTION 26

£12,000

		£	£
Sales	– Standard rated £115,200 × 20/120		19,200
	– Zero rated		0
Purchases	– Standard rate £43,200 × 20/120	7,200	
	– Zero rated	0	
			(7,200)
Net VAT payable			**12,000**

QUESTION 27

£240

Impairment losses £(780 + 660) = 1,440 × 20/120 = **£240**

Relief for impairment losses is given once six months have expired from the time when payment was due, so relief can be claimed in respect of both impairment losses.

QUESTION 28

Mobile phone £260, Customers £40

Mobile phone £2,600 × 60% (100% – 40%) × 20/120 = **£260**

An apportionment is made where a service such as the use of a telephone is partly for business purposes and partly for private purposes.

Customers entertainment £240 × 20/120 = **£40**

Input VAT on business entertainment is not recoverable unless it relates to the cost of entertaining overseas customers.

QUESTION 29

JOIN – Taxable turnover excluding VAT not more than £150,000 in next 12 months

LEAVE – Total turnover including VAT more than £230,000 in previous 12 months

QUESTION 30

£15,120

Using the flat rate scheme to calculate his VAT liability, Zim would have paid VAT of £126,000 × 12% = £15,120 for the year ended 31 March 2018.

Section C

QUESTION 31

31 Bayle (B)

Marking Scheme

		Marks
(a) Monthly thresholds	½	
Employee Class 1 NIC	1½	
Employer Class 1 NIC	2	
		4
(b) (i) *Trading income assessments*		
2017/18	1½	
2018/19	2½	
		4
(ii) NIC		
Class 2 NIC	½	
Class 4 NIC	1	
Bayle	½	
		2
		10

(a) The monthly primary and secondary thresholds are both £680 (£8,164/12).

Fyle will pay employee Class 1 NIC for 2017/18 of £1,258 (£(3,300 – 680) = £2,620 @ 12% × 4).

Bayle will not pay employer's Class 1 NIC for 2017/18 since the employment allowance will cover the contributions of £1,446 (£(3,300 – 680) = £2,620 @ 13.8% × 4).

Tutorial note
The alternative approach using the annual earnings threshold and then taking 4/12ths of an annual NIC figure is acceptable.

(b) (i) **Trading income assessments**

Fyle's trading income assessment for 2017/18 is £14,400 calculated as follows:

	£
Profit share for period 1.12.17 to 30.9.18 (10 months)	
£216,000 × 10/12 × 20%	36,000
Basis period (1st year – actual) 1.12.17 to 5.4.18 (4 months)	
£36,000 × 4/10	**14,400**

The assessment for 2018/19 is £44,000 calculated as follows:

	£
Profit share for period 1.12.17 to 30.9.18 (10 months)	
£216,000 × 10/12 × 20%	36,000
Profit share for period 1.10.18 to 30.9.19 (12 months)	
£240,000 × 20%	48,000
Basis period (2nd year – first 12 months of trading)	
1.12.17 to 30.9.18	
1.10.18 to 30.11.18	
£48,000 × 2/12	36,000
	8,000
	44,000

(ii) **NIC**

Fyle will pay Class 2 NIC for 2017/18 of £(2.85 × 18) = **£51**.

He will pay Class 4 NIC for 2017/18 of £(14,400 – 8,164) = 6,236 @ 9% = **£561**.

There are no NIC implications for Bayle.

Tutorial note
Any reasonable estimate of the number of weeks for Class 2 contributions is acceptable.

QUESTION 32

Retro Ltd

Marking Scheme

		Marks
(a) *Adjustment to profit*		
Depreciation	½	
Gifts to employees	½	
Gifts to customers	½	
Political donations	½	
Qualifying charitable donations	½	
Impairment loss	½	
Lease of motor car	1	
Health and safety fine	½	
Legal fees	½	
Interest payable	½	
Capital allowances		
WDV b/f	½	
Delivery van	½	
AIA	½	
Motor car [1]	½	
WDA	½	
Motor car [2]	½	
FYA	½	
		9
(b) *Trading profit*	½	
Bank interest	½	
Carry back loss relief p/e 31 March 2017	1	
Carry back loss relief in y/e 31 August 2016	1	
Qualifying charitable donations	1	
		4
(c Unrelieved trading loss amount	1	
Carry forward loss relief	1	
		2
		15

(a) **Trading loss for the year ended 31 March 2018**

	£
Loss before taxation	(120,000)
Depreciation	27,240
Gifts to employees	0
Gifts to customers	0
Political donations	420
Qualifying charitable donations	680
Impairment loss	0
Lease of motor car (4,400 x 15%)	660
Health and safety fine	5,100
Legal fees – Internet domain name	0
Interest payable	0
Capital allowances (working)	(50,420)
Trading loss	**(136,320)**

Tutorial notes

(1) Gifts to customers are an allowable deduction if they cost less than £50 per recipient per year, are not of food, drink, tobacco or vouchers for exchangeable goods and carry a conspicuous advertisement for the company making the gift. Gifts to employees are an allowable deduction because the gifts will potentially be assessed on the employees as benefits.

(2) Interest on a loan used for trading purposes is deductible on an accruals basis.

Working – Capital allowances

	£	Main pool £	Allowances £
WDV brought forward		39,300	
Additions qualifying for AIA			
Delivery van	28,300		
AIA – 100%	(28,300)		28,300
		0	
Addition – Motor car [1]		14,700	
		54,000	
WDA – 18%		(9,720)	9,720
Addition qualifying for FYA			
Motor car [2]	12,400		
FYA – 100%	(12,400)		12,400
		0	
WDV carried forward		44,280	
Total allowances			**50,420**

Tutorial notes

(1) Motor car [1] has CO_2 emissions between 76 and 130 grams per kilometre, and therefore qualifies for writing down allowances at the rate of 18%.

(2) Motor car [2] has CO_2 emissions up to 75 grams per kilometre, and therefore qualifies for the 100% first year allowance.

(b)

	Year ended 31 August 2016	Period ended 31 March 2017
	£	£
Trading profit	56,600	47,900
Bank interest	1,300	0
	57,900	47,900
Loss against total profits (working)	(24,125)	(47,900)
	33,775	0
Qualifying charitable donations	(540)	
Taxable total profits	**33,235**	**0**

Working – Trading loss

For the year ended 31 August 2016, loss relief is restricted to £24,125 (57,900 × 5/12).

(c) The amount of unrelieved trading loss at 31 March 2018 is £64,295 (136,320 – 47,900 – 24,125).

The unrelieved trading loss can be carried forward and will be relieved against the first available trading profits of the same trade.

QUESTION 33

Wai

Marking Scheme

		Marks
(a) Salary	½	
Bonus	1	
Mileage allowance		
Reimbursement	½	
Ordinary commuting	½	
Travel to clients	½	
Temporary workplace	½	
Tax free amount @ 45p	½	
Tax free amount @ 25p	½	
Car benefit		
Percentage	½	
Benefit	1	
Incidental expenses	½	
Mobile telephone	1	
Living accommodation		
Annual value	½	
Additional benefit		
Cost	½	
Improvements	1	
Limit	1	
Benefit	½	
Personal allowance	1	
		12
(b) Form P60 contents	1½	
Date	½	
Form P11D contents	½	
Date	½	
		3
		15

(a) **Wai – Taxable income 2017/18**

	£
Employment income	
Salary (10,200 x 12)	122,400
Bonus	8,100
Mileage allowance (W1)	2,763
Car benefit (W2)	1,149
Incidental expenses (overseas, up to £10 per night – exempt)	0
Mobile telephone (400 x 20%)	80
Living accommodation – Annual value	4,828
– Additional benefit (W3)	2,280
	141,600
Personal allowance	0
Taxable income	**141,600**

Tutorial notes

(1) The bonus of £4,600 will have been treated as being received during 2016/17 as Wai became entitled to it during that tax year. Similarly, the bonus of £2,900 will be treated as received during 2018/19.

(2) The exemption for mobile telephones does not apply to the second telephone.

(3) No personal allowance is available as Wai's adjusted net income of £141,600 exceeds £123,000.

Workings

1 Mileage allowance

	Miles	£
Reimbursement (13,860 at 55p)		7,623
Business mileage		
Ordinary commuting	0	
Travel to clients' premises	8,580	
Temporary workplace	2,860	
	11,440	
Tax free amount		
10,000 miles at 45p		(4,500)
1,440 miles at 25p		(360)
Taxable benefit		**2,763**

Tutorial note

Travel to the temporary workplace qualifies as business mileage because the 24-month limit was not exceeded.

2 Car benefit

The relevant percentage for the car benefit is 17% because the motor car has CO2 emissions between 76 and 94 grams per kilometre.

The motor car was available during the period 1 September 2017 to 5 April 2018, so the benefit for 2017/18 is £1,149 (11,590 × 17% × 7/12).

3 Living accommodation additional benefit

The benefit is based on the cost of the property plus subsequent improvements incurred before the start of the tax year.

	£
Cost	142,000
Improvements (prior to 6 April 2017 only)	24,200
	166,200
Limit	(75,000)
	91,200

The additional benefit is therefore £2,280 (91,200 at 2.5%).

(b) **Form P60**

Form P60 will show Wai's taxable earnings, income tax deducted, final tax code, national insurance contributions (NIC), and Qaz plc's name and address.

This form should have been provided to Wai by 31 May 2018.

Form P11D

Form P11D will detail the expenses and benefits provided to Wai.

This form should have been provided to Wai by 6 July 2018.