Think Ahead ACCA

# Answers – CBE-Style Question Practice for F6

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# Topic 1 – Introduction to tax

## QUESTION 1

The correct answer is:

Statutes (Acts of Parliament) and Statutory Instruments have legal force.

HMRC publications such as Revenue and Customs Brief and Extra Statutory Concessions do not have legal force.

## QUESTION 2

The correct answer is:

Interest on an NS&I Investment account and interest on UK Government stocks ('gilts') are taxable.

Premium bond prizes and dividends on shares held in an Individual Savings Account are exempt.

## QUESTION 3

The correct answer is: **£538**

| | £ |
|---|---|
| Net income | 57,000 |
| Less personal pension contributions (gross) | (2,000) |
| Adjusted net income | 55,000 |
| Less threshold | (50,000) |
| Excess | 5,000 |
| ÷ £100 | 50 |
| Child benefit income tax charge: 1% × £1,076 × 50 | **538** |

## QUESTION 4

The correct answer is:

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

## QUESTION 5

The correct answer is:

**Two ties.**

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.

# Topic 2 – Employment income

## QUESTION 6

**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 2016/17**

| | £ |
|---|---|
| Employment income | |
| Salary (10,200 × 12) | 122,400 |
| Bonus | 8,100 |
| Mileage allowance (W1) | 2,763 |
| Car benefit (W2) | 1,014 |
| Incidental expenses | 0 |
| Mobile telephone (400 × 20%) | 80 |
| Living accommodation – Annual value | 4,828 |
| – Additional benefit (W3) | 2,736 |
| | 141,921 |
| Less personal allowance | 0 |
| Taxable income | 141,921 |

*Tutorial notes*

1 The bonus of £4,600 will have been treated as being received during 2015/16 as Wai became entitled to it during that tax year. Similarly, the bonus of £2,900 will be treated as received during 2017/18.

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 £141,921 exceeds £122,000.

*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 15% because the motor car has CO2 emissions between 76 and 94 grams per kilometre.

The motor car was available during the period 1 September 2016 to 5 April 2017, so the benefit for 2016/17 is £1,014 (11,590 × 15% × 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 2016 only) | 24,200 |
| | 166,200 |
| Limit | (75,000) |
| | 91,200 |

The additional benefit is therefore £2,736 (91,200 at 3%).

(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 2017.

**Form P11D**

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

This form should have been provided to Wai by 6 July 2017.

## QUESTION 7

The correct answer is:

The code number for Joe, if he was only entitled to a personal allowance, would be 1100L and Joe's tax code will be applied to his salary when calculating the amount of income tax that has to be paid each month under the PAYE system.

Joe's tax code can be adjusted for unpaid tax on income from earlier years. HMRC may issue amended tax codes during the tax year.

## QUESTION 8

The correct answer is:

**31 December 2016 by Firstly plc**

Form P45 will show Joe's taxable earnings and income tax deducted up to the date of leaving, together with his tax code at the date of leaving.

## QUESTION 9

The correct answer is:

**31 May 2017 by Secondly plc**

Form P60 will be prepared by Secondly plc at the end of the tax year. It will show Joe's taxable earnings, income tax deducted, final tax code, national insurance contributions, and Secondly plc's name and address.

## QUESTION 10

The correct answer is:

**6 July 2017, cash equivalents of the benefits.**

## QUESTION 11

The correct answer is:

**£400**

Secondly plc has over 250 employees so the penalty is £400.

# Topic 3 – Investment income

## QUESTION 12

The correct answer is:

**£64,000**

Rosie was a member of a pension scheme for 2015/16, so the full annual allowance for that year is available but the annual allowance is not available for carry forward from 2013/14. Her adjusted income for the tax year 2016/17 is greater than £210,000 so her annual allowance for that tax year is tapered to £10,000.

She has unused allowances of £(40,000 – 26,000) = £14,000 from 2014/15, and £40,000 from 2015/16, so the available annual allowances for 2016/17 are therefore £(10,000 (2016/17) + 14,000 + 40,000) = **£64,000**.

## QUESTION 13

The correct answer is:

Charge at 45% on excess contributions.

## QUESTION 14

The correct answer is:

Lump sum: up to 25% of fund can be taken as tax-free lump sum, Rest of fund: taxable as pension income when received.

## QUESTION 15

The correct answer is:

**£14,240**

The ISA amount 2016/17 is £15,240. Sam has already invested £6,000 in the tax year 2016/17, so can invest a further £(15,240 – 6,000) = £9,240. He can also replace the £5,000 withdrawn in October 2016 so the total amount he can now invest is £(9,240 + 5,000) = **£14,240**.

## QUESTION 16

The correct answer is:

Premium bonds: exempt from both income tax and capital gains tax, Government securities chargeable to income tax, exempt from capital gains tax.

# Topic 4 – Trading income assessments

## QUESTION 17

### Marking Scheme

| | | Marks |
|---|---|---|
| Salary | | 1 |
| Pension contribution | Patience | ½ |
| Pension contribution | Employer | ½ |
| School place | 1 | |
| Long-service award | | ½ |
| Beneficial loan | | ½ |
| Trading income | Y/e 31.7.16 | ½ |
| | p/e 31.12.16 | ½ |
| | Overlap relief | 1 |
| Capital allowances | TWDV brought forward | ½ |
| | Laptop | ½ |
| | Disposal proceeds | 1 |
| | Balancing allowance | ½ |
| Property business profit | Rent received | ½ |
| | Expenditure | ½ |
| Pension income | | 1 |
| Personal allowance | | ½ |
| Increase basic rate limit | | 1 |
| Income tax liability | | 1 |
| Capital gains | Property one | ½ |
| | Property two | ½ |
| | Annual exempt amount | ½ |
| | CGT payable | ½ |
| | | 15 |

**Patience – Income tax computation 2016/17**

| | | £ |
|---|---|---|
| Employment income | | |
| Salary £3,750 × 9 | | 33,750 |
| Pension contributions | Patience £33,750 × 6% | (2,025) |
| | Employer | 0 |
| | | 31,725 |
| School place | | 540 |
| Long-service award | | 0 |
| Beneficial loan | | 0 |
| Trading income (W1) | | 16,100 |
| Pension income £(1,450 + 6,000 + 3,300) | | 10,750 |
| Property business income (W3) | | 3,500 |
| Net income | | 62,615 |
| Less personal allowance | | (11,000) |
| Taxable income | | 51,615 |

| *Income tax* | £ |
|---|---|
| £36,500 (W4) × 20% | 7,300 |
| £15,115 (51,615 – 36,500) × 40% | 6,046 |
| Income tax liability | 13,346 |

*Tutorial notes:*

1 An employer contribution to a pension scheme is not a taxable benefit.

2 The taxable benefit on the provision of the school place is the additional marginal cost to the employer, not the normal fee payable.

3 A non-cash long-service award is not a taxable benefit if it is for a period of service of at least 20 years, and the cost of the award does not exceed £50 per year of service.

4 There is no taxable benefit if beneficial loans do not exceed £10,000 during the tax year.

*Workings*

1 *Trading income*

| | £ | £ |
|---|---|---|
| Year ended 31 July 2016 | | 14,800 |
| Period ended 31 December 2016 | 6,900 | |
| Balancing allowance (W2) | (1,900) | |
| | | 5,000 |
| | | 19,800 |
| Relief for overlap profits | | (3,700) |
| | | 16,100 |

2 *Capital allowances*

| | *Main pool* | *Allowances* |
|---|---|---|
| | £ | £ |
| WDV brought forward | 2,200 | |
| Addition – Laptop computer | 1,700 | |
| Proceeds £(1,200 + 800) | (2,000) | |
| Balancing allowance | (1,900) | 1,900 |

3 *Property business income*

| | £ |
|---|---|
| Rent received £(3,600 + 7,200) | 10,800 |
| Expenditure £(4,700 + 2,600) | (7,300) |
| Property business income | 3,500 |

4 *Basic rate limit*

Patience's basic rate tax limit is increased by £4,500 to £36,500 (32,000 + 4,500 (3,600 × 100/80)) in respect of the personal pension contributions.

**Patience – Capital gains tax computation 2016/17**

| | | £ | £ |
|---|---|---|---|
| Property one | Disposal proceeds | 122,000 | |
| | Less cost | (81,400) | |
| | | | 40,600 |
| Property two | Disposal proceeds | 98,000 | |
| | Less cost | (103,700) | |
| | | | (5,700) |
| Net chargeable gains | | | 34,900 |
| Less annual exempt amount | | | (11,100) |
| Taxable gains | | | 23,800 |
| | | | |
| Capital gains tax | | | |
| £23,800 × 28% | | | 6,664 |

## QUESTION 18

**Marking Scheme**

| | | Marks |
|---|---|---|
| (a) | *Samson* | |
| | Salary | ½ |
| | Building society interest | ½ |
| | Personal allowance | 1 |
| | Income tax | 2 |
| | *Delilah* | |
| | Salary | ½ |
| | Payroll giving | 1 |
| | Car benefit | 1 |
| | Chauffeur | ½ |
| | Hamper | ½ |
| | Business travel | ½ |
| | Trading profit | 1 |
| | Building society interest | ½ |
| | Deductible interest | 1 |
| | Personal allowance not available | ½ |
| | Income tax | 2 |
| | | 13 |
| (b) | Transfer part of account from Samson to Delilah | 2 |
| | | 15 |

(a) **Samson – Income tax computation 2016/17**

| | *Non-savings income* | *Savings income* | *Total* |
|---|---|---|---|
| | £ | £ | £ |
| Employment income – Salary | 112,000 | | |
| Building society interest £9,600/2 | | 4,800 | |
| Net income | 112,000 | 4,800 | 116,800 |
| Less Personal allowance (W) | (2,600) | | |
| Taxable income | 109,400 | 4,800 | 114,200 |

*Income tax*

| | £ |
|---|---|
| £32,000 × 20% | 6,400 |
| £77,400 (109,400 – 32,000) × 40% | 30,960 |
| £500 × 0% (savings rate nil rate band) | 0 |
| £4,300 (4,800 – 500) × 40% | 1,720 |
| Income tax liability | 39,080 |

*Working*

Samson's adjusted net income exceeds £100,000, so his personal allowance of £11,000 is reduced to £2,600 (11,000 – 8,400 ((116,800 – 100,000)/2)).

**Delilah – Income tax computation 2016/17**

| | *Non-savings income* | *Savings income* | *Total* |
|---|---|---|---|
| | £ | £ | £ |
| Employment income (W1) | 213,248 | | |
| Trading profit £85,600 (93,600 – 8,000) × 40% | 34,240 | | |
| Building society interest £9,600/2 | | 4,800 | |
| Total income | 247,488 | 4,800 | 252,288 |
| Less interest paid | (6,200) | | |
| Net income/taxable income | 241,288 | 4,800 | 246,088 |

*Workings*

1 *Employment income*

| | £ |
|---|---|
| Salary | 184,000 |
| Less charitable payroll deductions £250 × 12 | (3,000) |
| | 181,000 |
| Car benefit (W2) | 22,848 |
| Chauffeur | 9,400 |
| Hamper | 0 |
| Reimbursement of travel to visit client | 0 |
| Employment income | 213,248 |

2 *Car benefit*
The relevant percentage for the car benefit is 34% (16% + (185 – 95)/5).
The motor car was available throughout 2016/17 so the benefit is £22,848 (67,200 × 34%).

| *Income tax* | £ |
|---|---|
| £38,080 (W) × 20% | 7,616 |
| £118,000 (156,080 – 38,080) × 40% | 47,200 |
| £90,008 (246,088 – 156,080) × 45% | 40,504 |
| Income tax liability | 95,320 |

*Working*

Delilah's basic and higher rate tax limits are increased by £4,864 × $\frac{100}{80}$ = £6,080 to £38,080 (32,000 + 6,080) and £156,080 (150,000 + 6,080) in respect of the charitable gift aid donations.

*Tutorial notes:*

1 The car benefit does not cover the cost of a chauffeur, so this is an additional benefit.

2 The hamper is a trivial benefit as it does not exceed £50.

3 There is an automatic exemption for reimbursement of business expenses such as the train travel by Delilah (which would be a taxable benefit under general principles) provided that the expense would have been a deductible expense for the employee.

4 The loan interest paid of £6,200 is deductible because the loan was used by Delilah for a qualifying purpose.

5 No personal allowance is available as Delilah's adjusted net income of £240,008 (246,088 – 6,080) exceeds £122,000.

6 No savings nil rate band is available as Delilah is an additional rate taxpayer.

(b) If the building society deposit account had been in Delilah's sole name instead of in joint names for the entire year, this would have saved Samson income tax of £2,580 (£4,300 × 60%).

*Tutorial note:*
Because of the loss of the personal allowance, Samson's effective marginal rate of income tax is 60% on the savings income not covered by the savings nil rate band.

# Topic 5 – Other aspects of earnings

## QUESTION 19

**Marking Scheme**

| | | | Marks |
|---|---|---|---|
| (a) | Salary | ½ | |
| | Living accommodation – Annual value | ½ | |
| | – Additional benefit | 2 | |
| | Trading profit – Profit share | 2 | |
| | – Assessment | 1 | |
| | – Capital allowances | 2 | |
| | Property business profit – Rent receivable | ½ | |
| | – Council tax | ½ | |
| | – Porch | ½ | |
| | – Washer-dryer | 1 | |
| | Personal allowance | ½ | |
| | | | 11 |
| (b) | Interval | 1 | |
| | Tax planning | 1 | |
| | Basis period rules more complicated | 1 | |
| | Profit assessed in the year of cessation | 1 | |
| | | | 4 |
| | | | 15 |

(a) **Flick – Taxable income 2016/17**

| | | *Non-savings income* £ |
|---|---|---|
| Employment income | | |
| Salary | | 28,030 |
| Living accommodation | – Annual value | 4,600 |
| | – Additional benefit (W1) | 2,100 |
| | | 34,730 |
| Trading profit (W2) | | 8,220 |
| Property income (W3) | | 6,250 |
| Net income | | 49,200 |
| Less personal allowance | | (11,000) |
| Taxable income | | 38,200 |

*Workings*

1 *Living accommodation additional benefit*

| | £ |
|---|---|
| Market value | 145,000 |
| Less limit | (75,000) |
| | 70,000 |
| Additional benefit £70,000 × 3% | 2,100 |

*Tutorial note*
Since the property was acquired more than 6 years before being provided to Flick, the market value at the date it was provided to her is used as the cost of providing the benefit, instead of the original cost.

2 *Trading profit*

First work out the capital allowances for the partnership.

| | *Motor car* | *Allowances @ 60%* |
|---|---|---|
| | £ | £ |
| Purchase | 18,750 | |
| WDA @ 8% × 4/12 | (500) | 300 |
| TWDV c/f | 18,250 | |

*Tutorial note*
The partnership's motor car has CO2 emissions over 130 g/km and therefore qualifies for writing down allowance at the rate of 8%.

Flick's share of the partnership's trading profit for the period ended 30 April 2017 is then calculated as follows.

| | £ |
|---|---|
| Trading profit | 29,700 |
| Less capital allowances | (300) |
| | 29,400 |
| Less salary paid to Art £6,000 × 4/12 | (2,000) |
| Profits available for profit sharing | 27,400 |
| Profit share for Flick £27,400 × 40% | 10,960 |
| Flick's trading income for 2016/17 £10,960 × 3/4 | 8,220 |

*Tutorial note*
Flick's basis period for 2016/17 is 1 January 2017 to 5 April 2017 since this is her first year of trading.

3 *Property business profit*

| | | £ | £ |
|---|---|---|---|
| Rent receivable £660 × 12 | | | 7,920 |
| Less | council tax | 1,320 | |
| | porch | 0 | |
| | washer-dryer | 350 | |
| | | | (1,670) |
| | | | 6,250 |

*Tutorial note*
The cost of building the porch is not allowable as it is capital expenditure. Only the cost of a like for like replacement of the washing machine is allowable, not the improvement of the washer-dryer.

(b) **Advantages**

The interval between earning profits and paying the related tax liability will be 11 months longer. This can be particularly beneficial where profits are rising.

It will be possible to calculate taxable profits well in advance of the end of the tax year, making it much easier to implement tax planning and make pension contributions.

**Disadvantages**

The application of the basis period rules is more complicated.

The amount of profit assessed in the year of cessation could potentially be quite high as the basis period will be up to 23 months in length. Although overlap profits are deductible, these might be insignificant if the opening years' profits are low.

## QUESTION 20

### Marking Scheme

| | | Marks |
|---|---|---|
| (a) | Rate of tax | 1 |
| | Timing of relief | 1 |
| | Waste of personal allowance/annual exempt amount | 1 |
| | | 3 |
| (b) | Trading income | ½ |
| | Trading loss relief carried forward | 1 |
| | Building society interest | ½ |
| | Trading loss relief against general income | 1 |
| | Personal allowance | ½ |
| | Gains | ½ |
| | Capital loss relief carried forward | 1 |
| | Trading loss relief against gains | 1 |
| | Annual exempt amount | 1 |
| | | 7 |
| | | 10 |

(a) Factors that will influence an individual's choice of loss relief claim are:

(i) The rate of income tax or capital gains tax at which relief will be obtained, with preference being given to income charged at the additional rate of 45%, then the higher rate of 40%.

(ii) The timing of the relief obtained, with a claim against general income/capital gains of the current year or preceding year resulting in earlier relief than a carry forward claim against future trading profits.

(iii) The extent to which the income tax personal allowance and the capital gains tax annual exempt amount will be wasted by using a claim against general income/capital gains.

(b) **Samantha – Taxable income**

| | *2014/15* | *2015/16* | *2016/17* | *2017/18* |
|---|---|---|---|---|
| | £ | £ | £ | £ |
| Trading income | 7,290 | 42,600 | 0 | 16,285 |
| Less trading loss relief carried forward | (0) | (0) | (0) | (7,000) |
| | 7,290 | 42,600 | 0 | 9,285 |
| Building society interest | 0 | 6,100 | 3,800 | 2,130 |
| | 7,290 | 48,700 | 3,800 | 11,415 |
| Less trading loss relief against general income (N) | (0) | (48,700) | (0) | (0) |
| Net income | 7,290 | 0 | 3,800 | 11,415 |
| Less personal allowance | (7,290) | (0) | (3,800) | (11,000) |
| Taxable income | 0 | 0 | 0 | 415 |

**Samantha – Taxable gains**

| | *2014/15* | *2015/16* | *2016/17* | *2017/18* |
|---|---|---|---|---|
| | £ | £ | £ | £ |
| Gains | 21,100 | 23,300 | 0 | 14,100 |
| Less trading loss relief against gains (note) | (0) | (23,300) | (0) | (0) |
| | 21,100 | 0 | 0 | 14,100 |
| Less capital loss carried forward | (0) | (0) | (0) | (3,000) |
| | 21,100 | 0 | 0 | 11,100 |
| Less annual exempt amount | (11,100) | (0) | (0) | (11,100) |
| Taxable gains | 10,000 | 0 | 0 | 0 |

**Note.** Loss relief has been claimed against general income and gains for 2015/16 since this gives relief at the earliest date and at the highest rates of tax. No claim should be made to set the loss against general income in 2016/17 since this is already covered by the personal allowance for that year.

*Trading loss memorandum*

| | | £ |
|---|---|---|
| Loss 2016/17 | | 79,000 |
| Less | used 2015/16 (income) | (48,700) |
| | used 2015/16 (gains | (23,300) |
| Available for c/f | | 7,000 |
| Less | used 2017/18 | (7,000) |
| Loss unused | | 0 |

## QUESTION 21

**Marking Scheme**

| | | | Marks |
|---|---|---|---|
| (a) | Factors indicative of employment (½ mark each) | | 2 |
| (b) | Income | ½ | |
| | Capital allowances | 1 | |
| | Personal allowance | ½ | |
| | Income tax | ½ | |
| | Class 2 | ½ | |
| | Class 4 | 1 | |
| | | | 4 |
| (c) (i) | PAYE | 1 | |
| | Self-assessment | 1 | |
| | | | 2 |
| (ii) | Class 1 | 1½ | |
| | Additional NIC | ½ | |
| | | | 2 |
| | | | 10 |

(a) The contract is for a relatively long period of time.
George is required to do the work personally.
Xpee plc exercises control over George via the weekly meetings and instructions.
George will not incur any significant expenses in respect of the contract.
George will only be working for Xpee plc.
George is not taking any significant financial risk.
**Note.** Four items only required.

(b) **George – Income tax liability 2016/17**

| | £ |
|---|---|
| Income | 40,000 |
| Capital allowances – annual investment allowance | (3,600) |
| Trading income | 36,400 |
| Less personal allowance | (11,000) |
| Taxable income | 25,400 |
| | |
| *Income tax* | |
| £25,400 × 20% | 5,080 |

**George – National insurance contributions 2016/17**
Class 2 national insurance contributions will be £146 (52 × £2.80).
Class 4 national insurance contributions will be £2,551 (28,340 (36,400 – 8,060) × 9%).

(c) (i) If George is treated as employed in respect of his contract with Xpee plc, then the company will be required to deduct tax under PAYE every time that George is paid during 2016/17.

If treated as self-employed, George's income tax liability for 2016/17 would not be payable until 31 January 2018.

(ii) If George is treated as employed in respect of his contract with Xpee plc, then his class 1 national insurance contributions for 2016/17 will be £3,833 (31,940 (40,000 – 8,060) at 12%).

The additional amount of national insurance contributions which he will suffer for 2016/17 is therefore £1,136 (3,833 – 146 – 2,551).

*Tutorial note:*
For income tax purposes, capital allowances will reduce employment income in the same way that they are deducted in calculating the trading profit. However, there is no deduction for capital allowances when it comes to calculating class 1 national insurance contributions.

## QUESTION 22

**Marking Scheme**

| | | | Marks |
|---|---|---|---|
| (a) | 1 May 2016 to 31 October 2016 | 1½ | |
| | 1 November 2016 to 5 April 2017 | 1½ | |
| | | | 3 |
| (b) | Average loan | 1½ | |
| | Interest paid | 1½ | |
| | | | 3 |
| (c) | 2015/16 claim against total income | 1 | |
| | 2016/17 claim against total income | 1 | |
| | claim against chargeable gain | 1½ | |
| | Loss carried forward | ½ | 4 |
| | | | 10 |

(a) **Daniel – Trading income assessment 2016/17**

| | £ |
|---|---|
| *1 May 2016 to 31 October 2016* | |
| £96,000 × ¼ × 6/12 | 12,000 |
| *1 November 2016 to 5 April 2017* | |
| £180,000 × ¼ × 5/12 | 18,750 |
| | 30,750 |

*Tutorial note:*
Daniel joined as a partner on 1 May 2016, so the commencement rules apply to him for 2016/17. The basis period is the 11-month period from 1 May 2016 to 5 April 2017.

(b) **Francine – Beneficial loan 2016/17**

| | | £ | £ |
|---|---|---|---|
| $\frac{96,000 + (96,000 + 14,000)}{2}$ × 3% × 8/12 | | | 2,060 |
| Interest paid | £96,000 at 1.5% × 2/12 | 240 | |
| | £110,000 at 1.5% × 6/12 | 825 | |
| | | | (1,065) |
| Taxable benefit | | | 995 |

(c) **Gregor – Trading loss carried forward**

| | | £ |
|---|---|---|
| Trading loss | | 68,800 |
| 2015/16 | – Claim against total income £(14,700 + 4,600 + 1,300) | (20,600) |
| 2016/17 | – Claim against total income | (900) |
| | – Claim against chargeable gain (working) | (14,500) |
| Loss carried forward to 2017/18 | | 32,800 |

*Working – Claim against chargeable gain*
The loss relief claim against the chargeable gain is restricted to £14,500 (chargeable gain of £17,400 less the capital loss brought forward of £2,900).

*Tutorial note:*
Gregor can claim loss relief against his total income and chargeable gains for 2015/16 and 2016/17.

# Topic 6 – Chargeable gains

## QUESTION 23

**Marking Scheme**

| | | | Marks |
|---|---|---|---|
| (a) | (i) Annual exempt amount | 1 | |
| | Unused basic rate band | ½ | |
| | Capital gains tax | 1½ | |
| | | | 3 |
| | (ii) Freehold shop | ½ | |
| | Painting | ½ | |
| | Capital loss | 1 | |
| | Annual exempt amount | ½ | |
| | Capital gains tax | 1½ | |
| | | | 4 |
| (b) | Net proceeds | 1 | |
| | Cost – probate value taken over on transfer from spouse | 1 | |
| | Apportionment of cost | 1 | |
| | | | 3 |
| | | | 10 |

(a) (i) **Winston – CGT liability 2016/17**

| | £ |
|---|---|
| Chargeable gain on painting | 46,360 |
| Less annual exempt amount | (11,100) |
| Taxable gain | 35,260 |
| CGT liability: £(32,000 – 19,400) = 12,600 @ 10% | 1,260 |
| £(35,260 – 12,600) = 22,660 @ 20% | 4,532 |
| | 5,792 |

(ii) **Winston – Revised CGT liability 2016/17**

| | £ |
|---|---|
| *Gain qualifying for entrepreneurs' relief* | |
| Gain on freehold shop £(140,000 – 80,000) | 60,000 |
| *Gain not qualifying for entrepreneurs' relief* | |
| Painting | 46,360 |
| Less allowable loss on warehouse £(102,000 – 88,000) | (14,000) |
| Net gain | 32,360 |
| Less annual exempt amount | (11,100) |
| Taxable gain | 21,260 |

| | £ |
|---|---|
| CGT liability: £60,000 @ 10% | 6,000 |
| £21,260 @ 20% | 4,252 |
| | 10,252 |

*Tutorial notes*

1 The capital loss on the sale of the freehold warehouse and the annual exempt amount are set against the chargeable gain from the sale of the painting as this saves CGT at the higher rate of 20%. Although the warehouse is being sold with the business, it was never actually used in the business, and so this aspect of the sale does not qualify for entrepreneurs' relief. If it had been used in the business, the loss of £14,000 would have been deducted from the gain on the shop to give a net gain on sale of the business of £46,000. CGT would then be charged on £46,000 at 10%.

2 The unused basic rate tax band of £12,600 is effectively used by the gain qualifying for entrepreneurs' relief of £60,000 even though this has no effect on the 10% tax rate.

(b) **Renaldo – Chargeable gain 3 December 2016**

| | £ |
|---|---|
| Gross proceeds | 92,000 |
| Less auctioneers' commission (cost of disposal) £92,000 × 5% | (4,600) |
| Net proceeds | 87,400 |
| Less cost £28,600 x $\frac{92,000}{92,000 + 38,000}$ | (20,240) |
| Chargeable gain | 67,160 |

*Tutorial notes*

1 The cost of the land is £28,600 which is the value when Renaldo's father-in-law died. Renaldo would have taken over this cost when his wife transferred the land to him.

2 The gross proceeds of sale are used in the part disposal fraction.

# Topic 7 – Further chargeable gains, inheritance tax and self-assessment

## QUESTION 24

The correct answer is: **£37,500**

The shares in Kapook plc are valued at 3.70 + ½ × (3.80 – 3.70) = £3.75 so the deemed disposal proceeds are 10,000 × £3.75 = £37,500.

## QUESTION 25

The correct answer is: **£26,333**

The disposal is first matched against the purchase on 24 July 2016 (this is within the following 30 days) and then against the shares in the share pool. The cost of the shares disposed of is, therefore, £26,333 (5,800 + 20,533).

| *Share pool* | *No. of shares* | *Cost* |
|---|---|---|
| | £ | £ |
| Purchase 19 February 2004 | 8,000 | 16,200 |
| Purchase 6 June 2009 1 for 2 @ £3.65 per share | 4,000 | 14,600 |
| | 12,000 | 30,800 |
| Disposal 20 July 2016 £30,800 × 8,000/12,000 | (8,000) | (20,533) |
| Balance c/f | 4,000 | 10,267 |

## QUESTION 26

The correct answer is: **2 and 4**

Nim will have deemed proceeds on the transfer of the Jooba Ltd shares to his wife so that neither a gain nor a loss will arise on the transfer. Nim's wife will not be able to transfer her annual exempt amount to Nim.

Nim's wife will take the Jooba Ltd shares with a cost equal to the deemed proceeds ie the original cost to Nim. The spouse exemption applies for inheritance tax, not capital gains tax.

## QUESTION 27

The correct answer is: **£3,500**

| | £ |
|---|---|
| Net proceeds | 8,700 |
| Less cost | (5,200) |
| Gain | 3,500 |

The maximum gain is 5/3 × £([8,700 + 300] – 6,000) = £5,000. The chargeable gain is the lower of £3,500 and £5,000, so it is £3,500.

## QUESTION 28

The correct answer is: **£6,900**

The set off of the brought forward capital losses is restricted to £8,900 (20,000 – 11,100) so that chargeable gains are reduced to the amount of the annual exempt amount. Capital losses carried forward are therefore £(15,800 – 8,900) = £6,900.

## QUESTION 29

Tax evasion is illegal – **TRUE**

Both tax evasion and tax avoidance are illegal – **FALSE**

Tax avoidance involves any legal method of reducing the taxpayer's tax burden – **TRUE**

Tax evasion always involves providing HM Revenue and Customs with false information – **FALSE**

Tax evasion does not necessarily involve providing HM Revenue and Customs (HMRC) with false information. It could include this situation where Ernest is evading tax by not providing HMRC with information to which is entitled.

## QUESTION 30

The correct answer is:

Ernest should be advised to disclose details of the capital gain to HMRC.

If Ernest does not disclose the gain to HMRC, your firm would be obliged to report under the money laundering regulations.

Your firm should also consider ceasing to act for Ernest. If it does cease to act, your firm should notify HMRC that it no longer acts for him although your firm should not provide any reason for this.

## QUESTION 31

The correct answer is: **£12,600**

The maximum penalty for an error which is deliberate but not concealed is 70% of potential lost revenue which is £18,000 × 70% = £12,600.

## QUESTION 32

The correct answer is: **£6,300**

The minimum penalty for prompted disclosure of an error which is deliberate but not concealed is 35% of potential lost revenue which is £18,000 × 35% = £6,300.

## QUESTION 33

The correct answer is: **£270**

The due date for payment was 31 January 2017 so the payment is six months late. The interest payable is therefore £18,000 × 3% × 6/12 = £270.

## QUESTION 34

The correct answer is: **£3,000**

| | | | £ |
|---|---|---|---|
| IHT | £300,000 | × 0% = | Nil |
| | £15,000 | × 20% = | 3,000 |
| | £315,000 | | 3,000 |

## QUESTION 35

The correct answer is: **£96,250**

| | | | £ |
|---|---|---|---|
| IHT | £10,000 | (325,000 – 315,000) × 0% = | Nil |
| | £481,250 | × 20% = | 96,250 |
| | £491,250 | | 96,250 |

Although Marcus pays the inheritance tax due, since the gross chargeable transfer is given, in order to work out the tax he pays, this is 20% of the excess over the available nil rate band.

## QUESTION 36

The correct answer is: **£38,500**

| | | | £ |
|---|---|---|---|
| IHT | £10,000 | × 0% = | Nil |
| | £481,250 | × 40% = | 192,500 |
| | £491,250 | | 192,500 |
| Taper relief (3 to 4 years ) @ 20% | | | 38,500 |

## QUESTION 37

The correct answer is: **£570,000**

| | £ |
|---|---|
| Before: 100,000 × £12 | 1,200,000 |
| After: 70,000 × £9 | (630,000) |
| Potentially exempt transfer of value | 570,000 |

## QUESTION 38

The correct answer is:

If Jerome's wife remarries, any unused nil rate band on her death can be transferred to her spouse if they survive her.

The transfer of Jerome's estate to his wife on his death is an exempt transfer.

Married couples (and registered civil partnerships) are not chargeable persons for inheritance tax (IHT) purposes, because each spouse (or civil partner) is taxed separately.

The gift of the land on 29 June 2015 by Jerome to his wife is an exempt transfer.

## QUESTION 39

The correct answer is: **£8,500**

| | £ |
|---|---|
| Marriage exemption | 2,500 |
| Annual exemption 2015/16 | 3,000 |
| Annual exemption 2014/15 b/f | 3,000 |
| | 8,500 |

## QUESTION 40

The correct answer is: **£55,000**

| | £ |
|---|---|
| Before the gift: 5,100 shares × £30 | 153,000 |
| After the gift: 4,900 shares × £20 | (98,000) |
| Diminution in value | 55,000 |

## QUESTION 41

The correct answer is: **£118,750**

| | | | £ |
|---|---|---|---|
| Net transfer of value (Jimmy pays IHT) | | | 800,000 |
| IHT | £325,000 | × 0% = | Nil |
| | £475,000 | × 20/80 = | 118,750 |
| | £800,000 | | 118,750 |

## QUESTION 42

Due date – **31 August 2017**
By whom paid – **Trustees of trust**

## QUESTION 43

The correct answer is: **£312,000**

| | £ |
|---|---|
| Death estate | 980,000 |
| Less spouse exemption | (200,000) |
| Chargeable death estate | 780,000 |
| £780,000 × 40% | 312,000 |

The nil rate band has been used up by the lifetime transfers (stated in question) so the chargeable death estate is all taxed at 40%.

## QUESTION 44

**Marking Scheme**

| | | | | Marks |
|---|---|---|---|---|
| (a) | (i) | Date for notification | 1 | |
| | | Maximum penalty | 1 | |
| | | Minimum penalty | 1 | |
| | | | | 3 |
| | (ii) | Compliance check notification date | 1 | |
| | | Random basis | 1 | |
| | | Other reasons | 1 | |
| | | | | 3 |
| (b) | (i) | Saving | | 1 |
| | (ii) | Charitable support | | 1 |
| | (iii) | Capital gains reliefs | | |
| | | Plant and machinery | 1 | |
| | | | 1 | |
| | | | | 2 |
| | | | | 10 |

(a) (i) **Notification of chargeability**

John should have given notice to HM Revenue and Customs (HMRC) of his chargeability to income tax for 2015/16 by 5 October 2016.

The maximum penalty for careless late notification is 30% of the Potential Lost Revenue (PLR) to HMRC which will be John's tax payable on the return for 2015/16.

However, if John tells HMRC of his failure to notify within 12 months and John has no reason to believe HMRC has discovered, or is about to discover, the error (unprompted disclosure) as appears to be the case here, the penalty can be reduced by HMRC to 0%.

(ii) **Compliance check**

If HMRC intend to carry out a compliance check enquiry into John's 2015/16 tax return, it will have to notify him by the first anniversary of the actual filing date.

HMRC have the right to carry out a compliance check enquiry as regards the completeness and accuracy of any return and some returns are selected for a compliance check enquiry at random.

Other returns are selected for a particular reason, for example, if HMRC believes that there has been an underpayment of tax due to the taxpayer's failure to comply with tax legislation.

(b) (i) Saving is encouraged by offering individuals tax incentives such as income tax and capital gains tax exemptions on new individual savings accounts and income tax relief on pension contributions.

(ii) Charitable support is encouraged by giving individuals income tax relief on donations made through the gift aid scheme or by payroll deduction.

(iii) Entrepreneurs are encouraged to build their own businesses through various capital gains tax reliefs such as entrepreneurs' relief.

Investment in plant and machinery is encouraged through capital allowances.

# Topic 8 – Corporation tax

## QUESTION 45

### Marking Scheme

| | | Marks |
|---|---|---|
| Operating profit | | ½ |
| Depreciation | | ½ |
| Amortisation | | ½ |
| Deduction for lease premium: | premium received | ½ |
| | amount not assessed on landlord | 1 |
| | deduction for trader | 1½ |
| Loan stock interest | | 1 |
| Capital allowances: | building costs | ½ |
| | heating system | ½ |
| | ventilation system | ½ |
| | AIA on special rate pool expenditure | 1 |
| | computer equipment | ½ |
| | furniture and furnishings | ½ |
| | fridge and cooker | ½ |
| | AIA on main rate pool expenditure | ½ |
| | WDA | ½ |
| Chargeable gain: | proceeds | ½ |
| | cost | ½ |
| | indexation allowance | 1 |
| Property business income | | 1 |
| Interest income | | 1 |
| Corporation tax | | ½ |
| | | 15 |

**Softapp Ltd – Corporation tax computation for the year ended 31 March 2017**

| | | £ |
|---|---|---|
| Operating profit | | 711,475 |
| Add: | depreciation | 10,170 |
| | amortisation | 2,500 |
| | | 724,145 |
| Less: | deduction for lease premium (W1) | (2,050) |
| | loan stock interest payable (trading loan relationship) | (67,200) |
| | capital allowances (W2) | (202,520) |
| Trading profit | | 452,375 |
| Property business income (W3) | | 27,500 |
| Chargeable gain (W4) | | 61,525 |
| Interest income (non-trading loan relationships) £(5,600 + 2,500) | | 8,100 |
| Taxable total profits | | 549,500 |
| *Corporation tax liability* | | |
| £549,500 × 20% | | 109,900 |

*Workings*

1 *Deduction for lease premium*

The amount assessed on the landlord is £82,000, calculated as follows:

| | £ |
|---|---|
| Premium | 100,000 |
| Less £100,000 × 2% × (10 – 1) | (18,000) |
| Assessable as property business income on landlord | 82,000 |

This is deductible by a business tenant over the life of the lease so the deduction for Softapp Ltd for the year ended 31 March 2017 is £(82,000/10 × 3/12) = £2,050.

2 *Capital allowances*

| | *AIA* | *Main pool* | *Special rate pool* | *Allowances* |
|---|---|---|---|---|
| *Additions qualifying* for AIA | £ | £ | £ | £ |
| Building costs | 0 | | | |
| Heating system | 3,600 | | | |
| Ventilation system | 4,600 | | | |
| | 8,200 | | | |
| AIA (part) | (8,200) | | | 8,200 |
| Transfer to SR pool | 0 | | 0 | |
| | | | | |
| Computer equipment | 175,000 | | | |
| Furniture and furnishings | 29,400 | | | |
| Fridge and cooker | 1,400 | | | |
| | 205,800 | | | |
| AIA (balance) | (191,800) | | | 191,800 |
| Transfer to main pool | 14,000 | 14,000 | | |
| WDA @ 18% | | (2,520) | | 2,520 |
| TWDVs c/f | | 11,480 | 0 | |
| Allowances | | | | 202,520 |

*Tutorial notes*

1 The expenditure which is integral to the building is special rate pool expenditure.

2 It is beneficial to claim the annual investment allowance of £200,000 against this expenditure in priority to main pool expenditure, as it would otherwise only qualify for writing down allowance at the rate of 8% in the special rate pool.

3 *Property business income*

| | £ |
|---|---|
| Rental income receivable | 30,000 |
| Less irrecoverable rent £5,000 × 1/2 | (2,500) |
| Property business income | 27,500 |

4 *Chargeable gain*

| | £ |
|---|---|
| Proceeds | 93,219 |
| Less cost | (30,000) |
| Unindexed gain | 63,219 |
| Less indexation allowance $\frac{(263.8 - 249.97)}{249.7} \times £30,000$ | (1,694) |
| Indexed gain | 61,525 |

## QUESTION 46

### Marking Scheme

| | | Marks |
|---|---|---|
| Trading profit | | ½ |
| Loan stock interest payable | | 1½ |
| P&M | – Office building | ½ |
| | – Ventilation system and lift | 1 |
| | – AIA | 1 |
| | – Machinery | ½ |
| | – Building alterations | ½ |
| | – Wall | ½ |
| | – Partition walls | 1 |
| | – AIA | 1 |
| | – Main pool | 2 |
| | – Special rate pool | 1½ |
| | – Short life asset | 1 |
| Interest income | | 2 |
| Corporation tax | | ½ |
| | | 15 |

**Molten-Metal plc – Corporation tax computation for the year ended 31 March 2017**

| | | £ | £ |
|---|---|---|---|
| Trading profit | | | 2,170,144 |
| Less: | Loan stock interest payable £(22,500 + 3,700 – 4,200) | 22,000 | |
| | Capital allowances P&M (W1) | 240,638 | |
| | | | (262,638) |
| | | | 1,907,506 |
| Interest income (W2) | | | 8,700 |
| Taxable total profits | | | 1,916,206 |
| Corporation tax £1,916,206 @ 20% | | | 383,241 |

*Tutorial note*
Interest paid in respect of a loan used for trading purposes is deductible in calculating the trading profit.

*Workings*

1 Capital allowances

| | *AIA* | *Main pool* | *Special rate pool* | *Short life asset* | *Allowances* |
|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ |
| TWDVs c/f | | 87,800 | | | |
| AIA additions | | | | | |
| Office building | 0 | | | | |
| Ventilation system | 31,000 | | | | |
| Lift | 42,000 | | | | |
| | 73,000 | | | | |
| AIA – 100% | (73,000) | | | | 73,000 |
| Transfer balance to special rate pool | 0 | | 0 | | |
| Machinery | 186,600 | | | | |
| Building alterations | 7,700 | | | | |
| Wall | 0 | | | | |
| Partition walls | 22,900 | | | | |
| | 217,200 | | | | |
| AIA | (127,000) | | | | 127,000 |
| Transfer balance to main pool | 90,200 | 90,200 | | | |
| Other additions | | | | | |
| Computer | | | | 2,500 | |
| Motor car | | | 24,000 | | |
| Motor cars | | | | | |
| £17,300 × 2 | | 34,600 | | | |
| | | 212,600 | | | |
| WDA @ 18% | | (38,268) | | (450) | 38,718 |
| WDA @ 8% | | | (1,920) | | 1,920 |
| TWDVs c/f | | 174,332 | 22,080 | 2,050 | |
| Allowances | | | | | 240,638 |

*Tutorial notes*

1 The ventilation system and lift are both integral to a building and so are special rate pool expenditure. It is beneficial to claim the annual investment allowance of £200,000 initially against this expenditure, as it would otherwise only qualify for writing down allowance at the rate of 8%.

2 The building alterations were necessary for the installation of the machinery, and therefore qualify for capital allowances. Walls are specifically excluded, with the exception of partition walls which are movable and intended to be so moved.

3 The computer will be depooled by making the election and treated as a short life asset. The annual investment allowance should not be claimed against this asset as this will effectively disapply the depooling election.

4 The motor car acquired in November 2016 has CO2 emissions over 130 grams per kilometre, and therefore qualifies for writing down allowances at the rate of 8% as part of the special rate pool.

5 The motor cars acquired in March 2017 have CO2 emissions between 76 and 130 grams per kilometre, and therefore qualify for writing down allowances at the rate of 18% as part of the main pool. The private use of a motor car is irrelevant, since such usage will be assessed on the employee as a benefit.

2 Interest income

| | £ |
|---|---|
| Loan interest receivable £(9,800 + 3,100) | 612,900 |
| Bank interest receivable | 2,600 |
| | 15,500 |
| Less interest payable | (6,800) |
| Net interest income | 8,700 |

## QUESTION 47

**Marking Scheme**

| | | Marks |
|---|---|---|
| (a) Set off against gains in same accounting period | 1½ | |
| Carry forward against first available gains | 1½ | |
| | | 3 |
| (b) **Oogle plc shares** | | |
| Purchase June 2003 | ½ | |
| Bonus issue October 2006 | 1 | |
| Indexation to February 2008 | 1 | |
| Rights issue February 2008 | 1½ | |
| Indexation to March 2017 | 1 | |
| Disposal proceeds | 1 | |
| Indexed cost | 1 | |
| | | 7 |
| | | 10 |

(a) When a limited company has a capital loss, it is first set off against any chargeable gains arising in the same accounting period.

Any remaining capital loss is then carried forward and set off against the first available chargeable gains of future accounting periods.

(b) **Acebook Ltd – Chargeable gain on disposal on 10 March 2017**

| | *No of shares* | *Cost* | *Indexed cost* |
|---|---|---|---|
| | £ | £ | |
| Purchase June 2003 | 8,000 | 25,200 | 25,200 |
| Bonus issue October 2006 2:1 | 16,000 | | |
| | 24,000 | | |
| Indexed rise to February 2008 0.166 * £25,200 | | | 4,183 |
| Rights issue February 2008 1:5 @ £4.30 | 4,800 | 20,640 | 20,640 |
| | 28,800 | 45,840 | 50,023 |
| Indexed rise to March 2017 0.248 * £50,023 | | | 12,406 |
| | | | 62,429 |
| Disposal | (28,800) | (45,840) | (62,429) |

The gain is computed as follows:

| | £ |
|---|---|
| Proceeds 28,800 * £3.20 | 92,160 |
| Less indexed cost | (62,429) |
| Indexed gain | 29,731 |

# Topic 9 – Claims and admin for companies

## QUESTION 48

The correct answer is:

**£155,000**

| | £ |
|---|---|
| Proceeds | 180,000 |
| Less indexed cost | (155,000) |
| Gain | 25,000 |
| Gain immediately chargeable £(180,000 – 162,000) | (18,000) |
| Deduction from base cost of new warehouse | 7,000 |

The base cost of the new warehouse is £(162,000 – 7,000) = £155,000.

## QUESTION 49

The correct answer is:

**£8,000**

| | *Market value* | *Indexed cost* | *Gain* |
|---|---|---|---|
| | £ | £ | £ |
| 20,000 £1 Ordinary shares @ £4 each | 80,000 | 64,000 | |
| £40,000 (20,000 × £2) cash | 40,000 | 32,000 | 8,000 |
| | 120,000 | 96,000 | |

## QUESTION 50

The correct answer is:

**£5,000**

Although the general rules is that wasting chattels are exempt, there is an exception for assets used for the purpose of a trade in respect of which capital allowances have been or could have been claimed. The usual chattel rules therefore apply as follows:

| | £ |
|---|---|
| Proceeds | 9,000 |
| Less cost | (3,500) |
| Gain | 5,500 |

The maximum gain is 5/3 * £(9,000 – 6,000) = £5,000.

The chargeable gain is the lower of £5,500 and £5,000, so it is £5,000.

## QUESTION 51

The correct answer is:

**£16,108**

| | | £ |
|---|---|---|
| Proceeds | | 45,000 |
| Less | cost | (20,000) |
| | enhancement (drainage) | (2,000) |
| Unindexed gain | | 23,000 |
| Less | indexation on cost £20,000 × 0.324 | (6,480) |
| | indexation on enhancement £2,000 × 0.206 | (412) |
| Chargeable gain | | 16,108 |

## QUESTION 52

The correct answer is:

**2 and 4**

The capital loss can be set against chargeable gains made in the year ended 31 March 2018 and the capital loss can be carried forward and set against the first available chargeable gains.

Capital losses cannot be carried back and cannot be set against profits other than chargeable gains.

## QUESTION 53

The correct answer is:

**Hampstead plc** **Regent plc** **Primrose plc**

A company is in a group relief group where there is a ≥75% direct and indirect holding by the controlling company (Hyde plc). Hyde plc has a (95% × 80%) = 76% interest in Primrose Ltd but only has a (85% × 85%) = 72.25% interest in Richmond Ltd.

## QUESTION 54

The correct answer is:

**£70,000**

| | £ |
|---|---|
| Trading loss | 68,000 |
| Excess qualifying charitable donations £(5,000 – 3,000) | 2,000 |
| Maximum group relief | 70,000 |

## QUESTION 55

The correct answer is:

**£50,500**

| | £ |
|---|---|
| Chargeable gain | 48,000 |
| Interest income | 12,000 |
| Trading loss | (8,000) |
| Qualifying charitable donations | (1,500) |
| Available taxable total profits | 50,500 |

Hyde plc is assumed to use its own current year losses in working out the taxable total profits against which it may claim group relief, even if it does not in fact claim relief for current losses against total profits. Group relief is set against taxable total profits after all other reliefs for the current period such as qualifying charitable donations.

## QUESTION 56

A claim for group relief will be ineffective unless Greenwich plc gives a notice of consent. The claim for group relief would be made on Hyde plc's corporation tax return.

Any payment by Hyde plc for group relief, up to the amount of the loss surrendered, is ignored for all corporation tax purposes. A claim for group relief between Greenwich plc and Hyde plc will be available against 9/12ths of the taxable total profits of Hyde plc for the year to 31 March 2018, since surrendered losses must be set against taxable total profits of a corresponding accounting period (1 April 2017 to 31 December 2017).

## QUESTION 57

The correct answer is:

**£120,000**

| | £ |
|---|---|
| Cost | 100,000 |
| Indexation allowance to date of transfer £100,000 × 0.200 | 20,000 |
| Base cost for Primrose plc | 120,000 |

The transfer of assets within a chargeable gains group is on a no gain/ no loss basis including indexation to the date of the transfer.

## QUESTION 58

**Marking Scheme**

| | | | Marks |
|---|---|---|---|
| (a) | **Maximum potential claim by Black Ltd** | | |
| | After losses brought forward used | 1 | |
| | Qualifying charitable donations | ½ | |
| | Maximum claim | ½ | |
| | **Maximum surrender by White Ltd** | | |
| | Trading loss – current period only/maximum claim | 1 | |
| | Qualifying charitable donations | 1 | |
| | Capital losses | ½ | |
| | **Maximum group relief claim that can be made** | ½ | |
| | | | 5 |
| (b) (i) | 75% shareholding | 1 | |
| | 50% effective interest | 1 | |
| | | | 2 |
| (ii) | Set off of capital loss | | 1 |
| (iii) | No gain no loss transfers | 1 | |
| | Rollover relief | 1 | |
| | | | 2 |
| | | | 10 |

(a) **Black Ltd – Group relief claim for year ended 31 March 2017**

*Maximum potential claim by Black Ltd*
Black Ltd uses its own losses brought forward in working out the taxable total profits against which it may claim group relief.

Furthermore, group relief is against taxable total profits after all other reliefs for the current period (for example qualifying charitable donations).

The maximum potential claim by Black Ltd is therefore £(396,800 – 57,900 + 21,100 – 4,400) = £355,600.

*Maximum potential surrender by White Ltd*

White Ltd may surrender its current period trading losses of £351,300. Only current period losses are available for group relief so White Ltd's loss of £21,800 brought forward cannot be group relieved.

White Ltd may also surrender excess qualifying charitable donations (ie to the extent that they exceed total profits before taking account of any losses). Since the qualifying charitable donations of £5,600 do not exceed the total profits of £26,700, there is no excess.

It is not possible to surrender capital losses as part of a group relief claim.

The maximum potential surrender by White Ltd is therefore £351,300.

*Maximum group relief claim*
The maximum group relief claim is the lower of the claim that can be made by Black Ltd and the surrender that can be made by White Ltd ie £351,300.

(b) (i) Companies form a chargeable gains group if at each level in the group structure there is a 75% shareholding.

However, the parent company must also have an effective interest of over 50% in each group company.

(ii) The election will enable the capital loss of £66,000 to be set against the capital gain of £74,800 and so save tax in the current year. Otherwise the loss would have to be carried forward by Culinary Ltd and set against future gains.

*Tutorial note*
Alternatively, an election could have been made to transfer the loss of Culinary Ltd to Gastron Ltd to set against the gain. The overall corporation tax effect for the chargeable gains group would have been the same.

(iii) Companies in a chargeable gains group make intra group transfers of chargeable assets without a chargeable gain or an allowable loss arising.

If a member of a chargeable gains group disposes of an asset eligible for chargeable gains rollover relief it may treat all of the group companies as a single unit for the purpose of claiming such relief.

## QUESTION 59

**Marking Scheme**

| | | | **Marks** |
|---|---|---|---|
| (a) | Definition | 1 | |
| | Honey plc | ½ | |
| | Molasses plc | ½ | |
| | Treacle plc | 1 | |
| | | | 3 |
| (b) | *Year ended 31 March 2017* | | |
| | Profit limit | ½ | |
| | Taxable total profits | ½ | |
| | FII | 1 | |
| | Profits, therefore large | ½ | |
| | *Year ended 31 March 2018* | | |
| | Taxable total profits = profits, therefore large | ½ | |
| | | | 3 |
| (c) | *Year ended 31 March 2017* | | |
| | Corporation tax | ½ | |
| | Date payable | ½ | |
| | *Year ended 31 March 2018* | | |
| | Corporation tax | ½ | |
| | Instalments | ½ | |
| | Dates payable | 2 | |
| | | | 4 |
| | | | 10 |

(a) A company B is a related 51% group company of another company A, if A is a 51% subsidiary of B (B owns more than 50% of A's ordinary shares directly or indirectly) or B is a 51% subsidiary of A or both A and B are 51% subsidiaries of another company. Honey plc is not a related 51% group company of Sugar plc because Sugar plc only directly owns 45% of the ordinary shares of Honey plc. Molasses plc is a related 51% group company of Sugar plc because Sugar plc directly owns 75% of the ordinary shares of Molasses plc. Treacle plc is related 51% group company of Sugar plc because Sugar plc indirectly owns 75% × 70% = 52.5% of the ordinary shares of Treacle plc.

(b) *Year ended 31 March 2017*

Sugar plc has two related 51% group companies (Molasses plc and Treacle plc) at the end of the previous accounting period. The profit limit is therefore £1,500,000/3 = £500,000. Sugar plc's profits for the year to 31 March 2017 are:

| | £ |
|---|---|
| Taxable total profits | 470,000 |
| Dividends from non-group companies | 50,000 |
| Profits | 520,000 |

Sugar plc is therefore a large company in the year to 31 March 2017.

*Year ended 31 March 2018*

The profit limit is the same and Sugar plc's taxable total profits of £600,000 are also its profits for these purposes. Sugar plc is therefore a large company in the year to 31 March 2018.

(c) *Year ended 31 March 2017*

| | £ |
|---|---|
| Corporation tax liability | |
| £470,000 × 20% | 94,000 |

Since this is the first year that Sugar plc is a large company, its corporation tax liability will be due in one amount on 1 January 2018.

*Year ended 31 March 2018*

| | £ |
|---|---|
| Corporation tax liability | |
| £600,000 × 20% | 120,000 |

This is payable in four equal instalments of £30,000. The instalments will have been due on 14 October 2017, 14 January 2018, 14 April 2018 and 14 July 2018.

# Topic 10 – Value added tax

## QUESTION 60

The correct answer is:

**£5,600**

| | |
|---|---|
| Cash sales £28,000 (adult clothes standard rated) × 20% | £5,600 |

## QUESTION 61

The correct answer is:

**£2,292**

| | £ |
|---|---|
| Credit sales with discount £12,000 × 95% × 90% × 20% | 2,052 |
| Credit sales without discount £12,000 × 10% × 20% | 240 |
| | 2,292 |

The calculation of output VAT on the credit sales only takes into account the discount for prompt payment for the 90% of customers that took it.

## QUESTION 62

The correct answer is:

**£2,400**

| | £ |
|---|---|
| Purchases and expenses £11,200 × 20% | 2,240 |
| Impairment loss £800 × 20% | 160 |
| | 2,400 |

Relief for an impairment loss is not given until six months from the time that payment is due. Therefore relief can only be claimed in respect of the invoice due for payment on 10 April 2016. Obviously the customer did not take up the discount for prompt payment.

## QUESTION 63

The correct answer is:

**1 and 4**

Anne will be permitted to join the scheme if her expected taxable turnover for the next 12 months does not exceed £1,350,000. If the value of Anne's taxable supplies exceeds £1,600,000 in the 12 months to the end of a VAT period she must leave the scheme immediately.

Anne will be permitted to join the scheme if she is up-to-date with both her VAT payments and with her VAT returns. Payment in nine monthly instalments is a feature of the annual accounting scheme.

## QUESTION 64

The correct answer is:

**2 and 4**

Automatic impairment loss relief (bad debt relief) and output VAT on the 10% of credit sales which are not settled within one month will be accounted for up to one month later than at present.

The output VAT payable will remain the same and accounting for VAT will also remain the same.

## QUESTION 65

The correct answer is:

**£390**

| | £ |
|---|---|
| Credit sales revenue discount taken up | |
| £2,000 × (100 – 4)% × 60% × 20% | 230 |
| Credit sales revenue discount not taken up | |
| £2,000 × 40% × 20% | 160 |
| | 390 |

## QUESTION 66

The correct answer is:

**£16,420**

| | £ |
|---|---|
| Cash sales revenue £38,520 × 20/120 | 6,420 |
| Sale of inventory on cessation £28,800 × 20/120 | 4,800 |
| Sale of non-current assets £31,200 × 20/120 | 5,200 |
| | 16,420 |

There is no VAT charged on the sale of the car, as none was recovered on purchase (owing to private usage).

## QUESTION 67

The correct answer is:

**£11,324**

| | £ |
|---|---|
| Expenses £([69,960 – 4,320] = £65,640) × 20/120 | 10,940 |
| Impairment loss | 384 |
| | 11,324 |

Input VAT on business entertainment for UK customers is not recoverable.

Relief for the impairment loss is available because the claim is made more than six months from the time that payment was due, and the debt has been written off in the company's books.

## QUESTION 68

The correct answer is:

**7 May 2017**

Default interest will be payable from the reckonable date (7 May 2017) to the date of payment.

## QUESTION 69

The correct answer is:

No output VAT would have been due on the sale of the inventory or the sale of the non-current assets.

A sale of a business as a going concern is outside the scope of VAT, and therefore output VAT would not have been due on the either the sale of the inventory or the sale of the non-current assets.

## QUESTION 70

**Marking Scheme**

| | | | Marks |
|---|---|---|---|
| (a) | Eligible for both schemes on turnover | 1½ | |
| | Up to date with payments for both schemes | 1 | |
| | Up to date with returns for cash accounting scheme | ½ | |
| | Output tax under cash accounting scheme | 1 | |
| | Input tax under cash accounting scheme | 1 | |
| | Annual accounting scheme – one return | 1 | |
| | | | 6 |
| (b) | (i) Payment on importation | 1 | |
| | Input tax recovery | 1 | |
| | (ii) Output tax on date of acquisition | 1 | |
| | Input tax recovery | 1 | |
| | | | 4 |
| | | | 10 |

(a) Clueless Ltd can use both schemes because its expected taxable turnover for the next 12 months does not exceed £1,350,000 exclusive of VAT.

In addition, for both schemes the company is up to date with its VAT payments, and for the cash accounting scheme it is up to date with its VAT returns.

With the cash accounting scheme, output VAT will be accounted for two months later than at present as the date of the cash receipt determines the return in which the transaction is dealt with rather than the invoice date.

The recovery of input VAT on expenses will not be affected as these are dealt with on a cash basis.

With the annual accounting scheme, the reduced administration in only having to file one VAT return each year should save on overtime costs.

(b) (i) **Supplier situated outside the European Union**
Clueless Ltd will have to pay VAT of £22,000 @ 20% = £4,400 to HM Revenue and Customs at the time of importation.

This will then be reclaimed as input VAT on the VAT return for the period during which the machinery is imported.

(ii) **Supplier situated elsewhere within the European Union**
VAT will have to be accounted for according to the date of acquisition. This will be the earlier of the date that a VAT invoice is issued or the 15th day of the month following the month in which the machinery comes into the UK.

The VAT charged of £4,400 will be declared on Clueless Ltd's VAT return as output VAT, but will then be reclaimed as input VAT on the same VAT return.