ACCA

PRACTICE & REVISION KIT

PAPER F6

TAXATION FA2009

FOR EXAMS IN 2010

BPP LEARNING MEDIA

ACCA

PRACTICE & REVISION KIT

PAPER F6

TAXATION (UK)

FA 2009

In this January 2010 edition

- We discuss the **best strategies** for revising and taking your ACCA exams
- We show you how to be **well prepared** for your exam
- We give you **lots of great guidance** on tackling questions
- We show you how you can **build your own exams**
- We provide you with **three** mock exams including the **December 2009 exam**

Our **i-Pass** product also supports this paper.

FOR EXAMS IN 2010

BPP LEARNING MEDIA

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We are grateful to the Association of Chartered Certified Accountants for permission to reproduce past examination questions. The suggested solutions in the exam answer bank have been prepared by BPP Learning Media Ltd, except where otherwise stated.

Contents

Question index

The headings in this checklist/index indicate the main topics of questions, but questions often cover several different topics.

Questions set under the old syllabus exam are included in this kit (labelled BTX and the date of the exam) because their style and content are similar to those that appear in the new syllabus exam. The questions have been amended as appropriate to reflect the current syllabus exam format.

Planning your question practice

Our guidance from page xviii shows you how to organise your question practice, either by attempting questions from each syllabus area or **by building your own exams** – tackling questions as a series of practice exams.

Using your BPP Learning Media products

This Kit gives you the question practice and guidance you need in the exam. Our other products can also help you pass:

- **Learning to Learn Accountancy** gives further valuable advice on revision
- **Passcards** provide you with clear topic summaries and exam tips
- **Success CDs** help you revise on the move
- **i-Pass CDs** offer tests of knowledge against the clock

You can purchase these products by visiting www.bpp.com/mybpp.

You can view demonstrations of i-Learn and i-Pass products by visiting www.bpp.com/acca/study-materials/#ilearn. Scroll down the page until you find the sections for i-Learn and i-Pass and click on the appropriate 'View demo' button.

Topic index

Listed below are the key Paper F6 syllabus topics and the numbers of the questions in this Kit covering those topics.

If you need to concentrate your practice and revision on certain topics or if you want to attempt all available questions that refer to a particular subject, you will find this index useful.

Syllabus topic	Question numbers
Administration of tax – individuals	2, 3, 10, 11, 13, 19, 20, ME1 Qu1, ME2 Qu1
Administration of tax – companies	28, 32, 42, ME3 Qu2
Capital allowances	5, 9, 10, 14, 17, 28, 29, 30, 31, 32, 37, 41, 43, 45, ME1 Qu2, ME2 Qu2, ME3 Qu 2, ME3 Qu 4
Chargeable gains – reliefs	21, 22, 23, 24, 25, 26, 27, 33, 34, ME1 Qu3, ME2 Qu3, ME3 Qu3
Chargeable gains – companies	33, 34, ME2 Qu3, 41, ME3 Qu3
Chargeable gains – individuals	10, 21, 22, 23, 24, 25, 26, 27, ME2 Qu3
Companies – calculation of PCTCT	28, 29, 30, 31, 32, 35, 37, 41, 42, 43, 45, ME1 Qu2, ME2 Qu2
Companies – calculation of tax	28, 29, 30, 31, 32, 33, 37, 39, 40, 41, 45, ME1 Qu2, ME2 Qu2
Companies – groups	39, 40, 41, 42, 43, 44, 45
Companies – losses	32, 35, 36, 37, 43, 44, ME3 Qu2
Companies – overseas aspects	30, 38, 39
Income tax computation	1, 4, 6, 8, 9, 14, ME1 Qu1, ME2 Qu1, ME3 Qu1
Individuals – employment income	2, 3, 4, 6, 9, 14, ME1 Qu1, ME2 Qu1, ME3 Qu1
Individuals – property income	4, 6, 7, ME1 Qu1, ME2 Qu1, ME3 Qu1
Individuals – trading income	6, 8, 9, 10, 12, 13, 14, 19, ME3 Qu4
Individuals – losses	11, 14, ME1 Qu4, ME2 Qu5
National insurance contributions	4, 9, 13, ME1 Qu1, ME3 Qu1
Partnerships	15, 16, 17, 18, ME2 Qu5, ME3 Qu4
Pensions	8, 17, ME2 Qu4, ME3 Qu5
Value added tax	13, 29, 30, 46, 47, 48, 49, 50, ME1 Qu2, ME2 Qu1, ME3 Qu2

ME1 is Mock Exam 1
ME2 is Mock Exam 2
ME3 is Mock Exam 3

Using your BPP Learning Media Practice and Revision Kit

Tackling revision and the exam

You can significantly improve your chances of passing by tackling revision and the exam in the right ways. Our advice is based on feedback from ACCA examiners.

- We look at the dos and don'ts of revising for, and taking, ACCA exams
- We focus on Paper F6; we discuss revising the syllabus, what to do (and what not to do) in the exam, how to approach different types of question and ways of obtaining easy marks

Selecting questions

We provide signposts to help you plan your revision.

- A full **question index**
- A **topic index** listing all the questions that cover key topics, so that you can locate the questions that provide practice on these topics, and see the different ways in which they might be examined
- **BPP's question plan** highlighting the most important questions and explaining why you should attempt them
- **Build your own exams**, showing how you can practise questions in a series of exams

Making the most of question practice

At BPP Learning Media we realise that you need more than just questions and model answers to get the most from your question practice.

- Our **Top tips** included for certain questions provide essential advice on tackling questions, presenting answers and the key points that answers need to include
- We show you how you can pick up **Easy marks** on some questions, as we know that picking up all readily available marks often can make the difference between passing and failing
- We include **marking guides** to show you what the examiner rewards
- We include **examiners' comments** to show you where students struggled or performed well in the actual exam
- We refer to the **FA 2009 BPP Study Text** (for exams in June and December 2010) for detailed coverage of the topics covered in questions

Attempting mock exams

There are three mock exams that provide practice at coping with the pressures of the exam day. We strongly recommend that you attempt them under exam conditions. **Mock exams 1** and 2 reflect the question styles and syllabus coverage of the exam and **Mock exam 3** is the December 2009 paper.

Passing F6

General exam support from BPP Learning Media

BPP Learning Media is committed to giving you the best possible support in your quest for exam success. With this in mind, we have produced **guidance** on how to revise and techniques you can apply to **improve your chances of passing** the exam. This guidance can be found on the BPP Learning Media web site at the following link:

www.bpp.com/acca/examtips/revising-for-ACCA-exams.doc

A paper copy of this guidance is available by writing to learningmedia@bpp.com.

As well as written guidance, an excellent presentation entitled **'Exam technique – advice from the experts at BPP Learning Media'** is available at the following link:

http://www.bppprofessionaldevelopment.com/elearning/Assets/audiovisual/ACCAExamSkills/NewSyllabus/player.html?cmp=get_ataste

Topics to revise

That said, you must have sound knowledge in the following fundamental areas if you are to stand a chance of passing the exam. You should therefore revise the following areas particularly well.

- Income tax computation including the personal allowance and the tax bands and rates.
- The calculation of benefits from employment, such as company car and/or fuel, use of an employer's asset and low cost loans. Make sure you can spot tax free benefits too.
- Capital allowances proforma paying particular attention to the availability of annual investment allowance. Note particularly the difference in the calculation rules between individuals (sole traders and partners) and companies.
- Calculation of profits chargeable to corporation tax (PCTCT). Be aware that you may need to calculate the various elements that make up the PCTCT such as property business income, interest income, gains and so on.
- Computation of chargeable gains paying attention to whether the disposal is made by an individual or a company, particularly for aspects such as indexation allowance and annual exemption.
- How to calculate VAT payable or repayable depending on the type of supply (ie standard rated, zero rated or exempt).
- The different classes of NIC payable by employees and their employers compared to those due from self employed individuals or partners.

Question practice

You should use the Passcards and any brief notes you have to revise the syllabus, but you mustn't spend all your revision time passively reading. **Question practice is vital;** doing as many questions as you can in full will help develop your ability to analyse scenarios and produce relevant discussion and recommendations. The question plan on page xvii tells you what questions cover so that you can choose questions covering a variety of syllabus areas.

Passing the F6 exam

Displaying the right qualities

The examiner expects students to display the following qualities.

Qualities required	
Knowledge development	Questions will test your knowledge of underlying principles and major technical areas of taxation, as they affect the activities of individuals and businesses, across the breadth of the F6 syllabus. You will also be expected to apply this knowledge to the facts of each particular question and also to identify the compliance issues for your client.
Computation skills	Although you will be expected to be able to calculate the tax liability, note that you will also be marked on the methods you use. So, if your numbers are not perfect you will not necessarily lose too many marks so long as your method is correct and you have stated any assumptions you have made.
Ability to explain	Whilst the main focus of the exam is on the computation of tax liabilities, you may also be required to explain rules and conditions, so take care to practise the written elements of the answers also.
Identification capability	You must know who you are calculating tax liabilities for – is the client a company or an individual? Be sure who you are advising as this will seriously impact your answers.

You will not always produce the exact same answer as we have in our answer section. This does not necessarily mean that you have failed the question, but if you do use the suggested proformas and methods you will maximise the number of marks you can achieve.

Avoiding weaknesses

We give details of the examiner's comments and criticisms throughout this Kit. These hardly varied over the last few years. His reports always emphasise the need for thorough preparation for the exam, but there are various things you can do on the day of the exam to enhance your chances. Although these all sound basic, the examiner has commented that many scripts don't:

- Make the most of the information given in the question
- Follow the question requirements
- Set out workings clearly

Using the reading time

You will have 15 minutes reading time for Paper F6. Here are some helpful tips on how to best utilise this time.

- Speed read through the question paper, jotting down any ideas that come to you about any of the questions.
- Decide the order which you're likely to tackle questions (probably easiest questions first, most difficult questions last).
- Spend the remainder of reading time reading the question(s) you'll do first in detail jotting down proformas and plans (any plans or proformas written on the question paper should be reproduced in the answer booklet).
- When you can start writing, get straight on with the question(s) you've planned in detail.

If you have looked at all of the questions during the reading time, this should hopefully mean that you will find it easier to answer the more difficult questions when you come to them, as you will have been generating ideas and remembering facts while answering the easier questions.

Choosing which questions to answer first

There are five compulsory questions, with a larger number of marks awarded for the first two questions.

- Many students prefer to answer the questions with the largest number of allocated marks first. Others prefer to answer a question on their most comfortable topic.
- Whatever the order, make sure you leave yourself **sufficient time** to tackle all the questions. Don't get so bogged down in the calculations in the first question you do, especially if it's your favourite topic, that you have to rush the rest of the paper.
- Allocate your time carefully between different question parts. If a question is split into a number of requirements, use the number of marks available for each to allocate your time effectively.

Tackling questions

You'll improve your chances by following a step-by-step approach along the following lines.

Step 1 Read the requirement

Identify the knowledge areas being tested and see precisely what the examiner wants you to do. This will help you focus on what's important in the question.

Step 2 Check the mark allocation

This helps you allocate time.

Step 3 Read the question actively

You will already know which knowledge area(s) are being tested from having read the requirement so whilst you read through the question underline or highlight key words and figures as you read. This will mean you are thinking about the question rather than just looking at the words blankly, and will allow you to identify relevant information for use in your calculations.

Step 4 Plan your answer

You may only spend five minutes planning your answer but it will be five minutes well spent. Identify the calculations you will need to do and whether you have appropriate proformas to assist in these. If there is a written element to the question, determine whether you can you use bullet points or if you need a more formal format.

Step 5 Write your answer

Stick carefully to the time allocation for each question, and for each part of each question.

Gaining the easy marks

There are two main ways to obtain easy marks in the F6 exam.

Proformas

There will always be basic marks available for straightforward tasks such as putting easy figures into proformas, for example putting the cost figure for an addition into a capital allowances proforma. Do not miss out on these easy marks by not learning your proformas properly. Make it easy for yourself to pick up the easy marks.

Deadlines and dates

An important component of your knowledge of the different taxes is the administrative, or compliance, details such as filing deadlines and tax payment dates. This element of the requirement can often be answered even before you make any calculations, for example stating the submission deadline for an individual's self assessment tax return.

Exam information

The exam paper

The syllabus is assessed by a three-hour paper-based examination.

The paper will be predominantly computational and will have five questions, all of which will be compulsory.

- Question one will focus on income tax and question two will focus on corporation tax. The two questions will be for a total of 55 marks, with one of the questions being for 30 marks and the other being for 25 marks.
- Question three will focus on chargeable gains (either personal or corporate) and will be for 20 marks.
- Questions four and five will be on any area of the syllabus and will respectively be for 15 marks and 10 marks.

There will always be at a minimum of 10 marks on value added tax. These marks will normally be included within question one or question two, although there might be a separate question on value added tax.

National insurance contributions will not be examined as a separate question, but may be examined in any question involving income tax or corporation tax.

Groups and overseas aspects of corporation tax will only be examined in question two, and will account for no more than one third of the marks available for that question.

Questions one or two might include a small element of chargeable gains.

Any of the five questions might include the consideration of issues relating to the minimisation or deferral of tax liabilities.

December 2009

		Question in this kit
1	Basis periods. Adjustment of profit for sole trader. Calculation of income tax. Administration for self assessment.	ME3 Qu 1
2	Residence of company. Capital allowances. Calculation of corporation tax. Overseas aspects. VAT registration, pre-registration input tax and errors.	ME3 Qu 2
3	CGT for three individuals with incorporation relief, gift relief and principal private residence relief.	ME3 Qu 3
4	Badges of trade. Calculation of tax liability if trading or realising capital gain.	ME3 Qu 4
5	Corporate loss relief	ME3 Qu 5

June 2009

		Question in this kit
1	Calculation of income tax liabilities, filing dates and record retention	2
2	Calculation of company's adjusted trading profit, corporation tax, interest, capital gains group and use of election	45
3	Calculation of capital gains tax liabilities, use of losses b/f	27
4	Calculation of VAT payable, cash accounting scheme, VAT registration and output VAT on piecemeal sale of fixed assets or TOGC	50
5	Factors indicating employment, income tax and national insurance as employee and self employed	ME1 Qu 5

Examiner's comments

This was another exceptionally good performance with many candidates achieving high marks. The simplification of capital gain tax for individuals, having a separate VAT question, and a fairly straightforward question five all contributed to the good pass rate. In addition, candidates seemed very well prepared for this examination. Areas, such as NIC, which a few diets ago were causing problems, are now handled with ease.

December 2008

		Question in this kit
1	Employment income, property income, calculation of income tax, national insurance	7
2	Calculation of loss for company, use of loss, penalties for late submission of return, VAT default surcharge, annual accounting scheme	37
3	Chargeable gains for company, shares, part disposal, relief for replacement of business assets	34
4	Partnership, change of accounting date, cessation of sole trade	18
5	Pension provision	8

Examiner's comments

This was an exceptionally good performance with many candidates achieving high marks. None of the questions caused any problems, and even candidates who did not do particularly well with questions 1, 2 and 3, often managed to achieve a pass mark by scoring good marks on questions 4 and 5.

June 2008

		Question in this kit
1	Employment income, trading income, calculation of income tax, national insurance	5
2	Accounting period for corporation tax, computation of PCTCT for short period, VAT registration	30
3	Chargeable gains for individual, residence and ordinary residence, CGT reliefs, part disposal	26
4	Income tax administration	20
5	Corporation tax for long period of account	31

Examiner's comments

This was a reasonable performance. The main problem was caused by question four, which many candidates found surprisingly difficult. This question was usually left until last, and it was often obvious that insufficient time had been left to attempt it properly.

December 2007

		Question in this kit
1	Employment income, trading income, calculation of income tax, national insurance	13
2	Adjustment to profit, loss, group relief	44
3	Chargeable gains for married couple, jointly owned property, CGT reliefs, calculation of CGT	25
4	Property income calculations	6
5	Loss relief for sole trader	n/a

Examiner's comments

This was a very good performance for the first sitting of this paper. Those candidates who marginally failed to achieve a pass mark generally did so because of poor time management. Also, many candidates that were obviously running out of time surprisingly opted to attempt question five, which was quite the most technically demanding on the paper, rather than question four where it was relatively easy to score 9 or 10 marks. Practicing questions under timed, exam-style conditions prior to sitting the examination would have helped as regards time management.

Pilot paper

		Question in this kit
1	Employment, self-employment, property income, calculation of income tax, records	ME1 Qu 1
2	Calculation of PCTCT and corporation tax, VAT default surcharge, disclosure of errors in VAT return	29
3	Chargeable gains for individuals	24
4	Change of accounting date for sole trader	ME1 Qu 4
5	Corporation tax losses	n/a

Analysis of past papers

The table below provides details of when each element of the syllabus has been examined and the question number and section in which each element appeared. Further details can be found in the Exam Focus Points in the relevant chapters.

Covered in Text chapter		Dec 2009	June 2009	Dec 2008	June 2008	Dec 2007	Pilot Paper
	UK TAX SYSTEM						
1	Introduction to the UK tax system						
	INCOME TAX AND NATIONAL INSURANCE CONTRIBUTIONS						
2	The computation of taxable income and the income tax liability	1c, 4b	1a	1a	1b, 1c	1a	1a
3	Employment income		1a, 5	1a	1a	1a	1a
4	Taxable and exempt benefits. The PAYE system		1a	1a	1a	1a	1a
5	Pensions		1a	5		1a	
6	Property income			1a		4	1a
7	Computing trading income	1b 4a, 4b	1a		1a		
8	Capital allowances					1a	1a
9	Assessable trading income	1a	5			1a	1a, 4
10	Trading losses					5	
11	Partnerships and limited liability partnerships			4			
12	National insurance contributions	4b	5	1b		1a	
	CHARGEABLE GAINS FOR INDIVIDUALS						
13	Computing chargeable gains	3a, 3b, 3c, 4b	3		3	3	3
14	Chattels and the principal private residence exemption	3c	3			3	3
15	Business reliefs	3a, 3b	3		3		
16	Shares and securities	3b	3			3	3
	TAX ADMINISTRATION FOR INDIVIDUALS						
17	Self assessment and payment of tax for individuals	1c, 1d	1b		4	1a	1b
	CORPORATION TAX						
18	Computing profits chargeable to corporation tax	2a	2a	2a	2a, 5	2a	2a
19	Computing the corporation tax liability	2a	2b	3a	5		2a
20	Chargeable gains for companies			3a, 3b			
21	Losses	5		2a			5
22	Groups		2d			2b	
23	Overseas matters for companies	2a			2a		
24	Self assessment and payment of tax by companies		2c	2a			
	VALUE ADDED TAX						
25	An introduction to VAT	2b	2a	2b	2b	1b	
26	Further aspects of VAT	2b	2b	2b		1b	2b

Useful websites

The websites below provide additional sources of information of relevance to your studies for *Strategic Financial Management.*

- www.accaglobal.com

  ACCA's website. The students' section of the website is invaluable for detailed information about the qualification, past issues of Student Accountant (including technical articles) and even interviews with the examiners.

- www.bpp.com

  Our website provides information about BPP products and services, with a link to the ACCA website.

Planning your question practice

We have already stressed that question practice should be right at the centre of your revision. Whilst you will spend some time looking at your notes and Paper F6 Passcards, you should spend the majority of your revision time practising questions.

We recommend two ways in which you can practise questions.

- Use **BPP Learning Media's question plan** to work systematically through the syllabus and attempt key and other questions on a section-by-section basis
- **Build your own exams** – attempt questions as a series of practice exams

These ways are suggestions and simply following them is no guarantee of success. You or your college may prefer an alternative but equally valid approach.

BPP Learning Media's question plan

The BPP Learning Media plan below requires you to devote a **minimum of 36 hours** to revision of Paper F6. Any time you can spend over and above this should only increase your chances of success.

Step 1 For each section of the syllabus, **review your notes** and the relevant chapter summaries in the Paper F6 **Passcards**.

Step 2 **Answer the questions** for that section as shown in **white boxes** in the table below. Try to complete your answers without referring to our solutions. In some cases we suggest that you make notes for the written part of a question or make answer plans, if you are short of time. You must make sure that you attempt a variety of questions from the whole syllabus and not just concentrate on a few aspects.

Step 3 Once you have worked through all of the syllabus sections attempt **Mock exam 1** under strict exam conditions. Then have a go at **Mock exam 2**, again under strict exam conditions. Just before the exam, if you have time, attempt **Mock exam 3**, again under strict exam conditions This is the December 2009 paper.

Syllabus section	Passcards chapters	Questions in this Kit	Comments	Done ☑
Revision period 1 Income tax computations	1, 2, 3	1	Work through this question carefully. It covers the basic income tax computation you will have to do in the exam.	☐
Revision period 2 Pensions and property income	5	8	Pensions are topical so work through this question very carefully.	☐
	6	6, 7	Property income can appear as part of a longer question or as a question on its own like this one.	☐
Revision periods 3/4 Employees	3, 4, 5, 6, 12, 17	2, 3, 5	These questions are typical of Question 1 in the exam. If you are short of time, prioritise Q2 and Q5 which are recent exam questions.	☐
Revision periods 5/6 Trading profits and losses for individuals				
Adjustment of profits	2, 7, 8, 9, 12, 13, 15, 17	9, 10, 13	Important questions that also include basis period rules for an individual. Q9 and Q13 also covers employment income: a good comparison with trading income. You should ignore the disposal in Q10 if you are short of time.	☐
Change of accounting date	2, 9	12	You should make sure that you are happy with the calculations in this question.	☐
Losses	10	11, 14	Losses are a key area so answer these questions carefully. Watch out for the extended loss relief rules.	☐
Revision period 7 Partnerships	5, 7, 8, 11, 12	15 to 18	Useful questions covering this important topic.	☐
Revision period 8 Self assessment	17	19, 20	Self assessment is a key topic. If you are short of time, make bullet points for the written elements of these questions.	☐
Revision period 9 NIC	2, 12, 13 – 16	4	A question covering a number of taxes. Work through carefully.	☐
Revision period 10 Capital gains			Gains will be tested in Question 3 in the exam and may also be tested in any of the other questions. The gains rules are therefore key for your exam.	☐
Basics	13 – 16	22	You can attempt part (a) of this question now. Leave part (b) until you have revised reliefs in Revision period 12.	☐

Syllabus section	Passcards chapters	Questions in this Kit	Comments	Done ☑
Revision period 11 Additional aspects of capital gains			The gains rules for shares, chattels and immoveable property, including PPR relief.	
	13 – 16	21, 23, 24	These are important questions. Make sure you understand the calculations.	☐
Revision period 12 Capital gains reliefs	13 – 16	25, 26, 27	It is likely that you will not be able to avoid reliefs for gains in the exam.	☐
Revision periods 13/14 Computing corporation tax				
Computation of PCTCT and CT	8, 13 – 16, 18, 19, 24, 25	28, 29, 30, 31 32	Vitally important questions that you must work through in full. These are similar to the type of question that you could see as Question 2 in the exam. If you run out of time prepare answer plans for Q29 and Q30 which also cover VAT aspects.	☐
		33, 34	Questions 33 and 34 deal with gains for companies. This could be tested in Question 3 in the exam.	
Revision period 15 Corporation tax losses				
Single company losses	13 – 16, 18, 19, 20, 21	35, 36, 37	Important questions covering a single company's losses. Don't forget the extended loss relief rules.	☐
Revision period 16 Corporation tax groups				
Group losses	8, 13, 15, 18, 19, 20, 22, 24	40, 41, 42, 43 44	Important questions. Group losses are a popular exam question but remember they will only be tested in Question 2 in the exam.	☐
Revision period 17 Overseas aspects of corporation tax	8, 19, 21, 23	38, 39	Make sure you can deal with DTR. This topic may be tested in Question 2 in the exam.	☐
Revision period 18 VAT	25, 26	46 to 50	Essential questions. There will be at least 10 marks for VAT in your paper so be prepared. You might see a whole question on VAT or it could be tested as part of a longer question.	☐

Build your own exams

Having revised your notes and the BPP Passcards, you can attempt the questions in the Kit as a series of practice exams. You can organise the questions in the following ways.

- Either you can attempt complete past exam papers; recent papers are listed below:

	June 09 Questions in kit	*December 08 Question in kit*	*June 08 Question in kit*
1	2	7	5
2	45	37	30
3	27	34	26
4	50	18	20
5	ME1 Qu 5	8	31

- Or you can make up practice exams, either yourself or using the suggestions we have listed below.

	Practice Exam					
	1	*2*	*3*	*4*	*5*	*6*
1	3	4	10	9	5	13
2	37	30	41	45	39	32
3	34	33	23	21	22	25
4	6	20	12	18	17	11
5	46	16	48	49	31	36

Questions

TAXATION OF INDIVIDUALS

Questions 1 to 18 cover the taxation of individuals and their income from employment and self-employment, the subject of Part B of the BPP Study Text for Paper F6. Questions 19 and 20 cover tax administration for individuals, the subject of Part D of the BPP Study Text for Paper F6.

1 Brad and Lauren **27 mins**

(a) Brad, an advertising executive, and his wife Lauren, an IT consultant, have one son. Having made a large gain on the sale of a property when they got married, they have acquired a considerable number of investments. They now require assistance in preparing their taxation returns for 2009/10 and have listed out their income and expenditure:

Lauren

	£
Salary	46,000
ISA account – dividends	350
– interest	125
Dividend received on Virgin plc shares	2,250
Building society interest (Joint account – total interest credited)	4,400 (net)
Interest received on 2011 10% Treasury Stock (received gross)	2,000
Gift Aid payment to Dogs Trust	1,000

Brad

	£
Salary	44,500
Premium Bond winnings	5,000
Interest received on National Savings & Investments Certificates	300
Building society interest (Joint account – total interest credited)	4,400 (net)

Required

Calculate Brad and Lauren's income tax liability for 2009/10. **(10 marks)**

(b) Lauren's father, Tom, a widower, who is 69, has the following income for 2009/10.

	£
State retirement pension	4,226
Pension from former employer	6,390
Building society interest	13,520

Tom gave £3,200 to Oxfam (a registered charity) on 21 September 2009 under Gift Aid.

Required

Calculate Tom's income tax liability for 2009/10. **(5 marks)**

(Total = 15 marks)

2 Domingo, Erigo and Fargo (TX 06/09) **45 mins**

Domingo, Erigo and Fargo Gomez are three brothers. The following information is available for the tax year 2009/10:

Domingo Gomez

(1) Domingo is aged 67.

(2) During the tax year 2009/10 he received the state pension of £4,500 and a private pension of £2,300.

(3) In addition to his pension income Domingo received building society interest of £14,400 and interest of £600 on the maturity of a savings certificate from National Savings and Investments during the tax year 2009/10. These were the actual cash amounts received.

(4) During the tax year 2009/10 Domingo made donations of £300 (gross) to local charities. These were not made under the gift aid scheme.

Erigo Gomez

(1) Erigo is aged 56.

(2) He is employed as a business journalist by Economical plc, a magazine publishing company. During the tax year 2009/10 Erigo was paid a gross annual salary of £36,000.

(3) During the tax year 2009/10 Erigo used his private motor car for business purposes. He drove 18,000 miles in the performance of his duties for Economical plc, for which the company paid an allowance of 20 pence per mile.

(4) During June 2009 Economical plc paid £11,400 towards the cost of Erigo's relocation when he was required to move his place of employment. Erigo's previous main residence was 140 miles from his new place of employment with the company. The £11,400 covered the cost of disposing of Erigo's old property and of acquiring a new property.

(5) Erigo contributed 6% of his gross salary of £36,000 into Economical plc's HM Revenue and Customs' registered occupational pension scheme.

(6) During the tax year 2009/10 Erigo donated £100 (gross) per month to charity under the payroll deduction scheme.

Fargo Gomez

(1) Fargo is aged 53.

(2) He commenced self-employment as a business consultant on 6 July 2009. Fargo's tax adjusted trading profit based on his draft accounts for the nine-month period ended 5 April 2010 is £64,800. This figure is before making any adjustments required for:

  (i) Advertising expenditure of £2,600 incurred during May 2009. This expenditure has not been deducted in calculating the profit of £64,800.

  (ii) Capital allowances.

(3) The only item of plant and machinery owned by Fargo is his motor car. This cost £11,000 on 6 July 2009 and had CO_2 emissions of 150g/km. During the nine-month period ended 5 April 2010 Fargo drove a total of 24,000 miles, of which 8,000 were for private journeys.

(4) During the tax year 2009/10 Fargo contributed £5,200 (gross) into a personal pension scheme, and made gift aid donations totalling £2,400 (net) to national charities.

Tax returns

For the tax year 2009/10 Domingo wants to file a paper self-assessment tax return and have HM Revenue and Customs prepare a self-assessment on his behalf. Erigo also wants to file a paper tax return but will prepare his own self-assessment. Fargo wants to file his tax return online.

Required

(a) Calculate the respective income tax liabilities for the tax year 2009/10 of:

  (i) Domingo Gomez; **(6 marks)**
  (ii) Erigo Gomez; **(6 marks)**
  (iii) Fargo Gomez. **(7 marks)**

(b) Advise Domingo, Erigo and Fargo Gomez of the latest dates by which their respective self-assessment tax returns for the tax year 2009/10 will have to be submitted given their stated filing preferences. **(3 marks)**

(c) Advise Domingo, Erigo and Fargo Gomez as to how long they must retain the records used in preparing their respective tax returns for the tax year 2009/10, and the potential consequences of not retaining the records for the required period. **(3 marks)**

(Total = 25 marks)

3 Vigorous plc (BTX 12/03) **45 mins**

Vigorous plc runs a health club. The company has three employees who received taxable benefits during 2009/10, and it therefore needs to prepare forms P11D for them. Each of the three employees is paid an annual salary of £35,000. The following information is relevant:

Andrea Lean

(1) Andrea was employed by Vigorous plc throughout 2009/10.

(2) Throughout 2009/10 Vigorous plc provided Andrea with a petrol powered company motor car with a list price of £19,400. The official CO_2 emission rate for the motor car is 260 grams per kilometre. Vigorous plc paid for all of the motor car's running costs of £6,200 during 2009/10, including petrol used for private journeys. Andrea pays £150 per month to Vigorous plc for the use of the motor car.

(3) Vigorous plc has provided Andrea with living accommodation since 1 November 2007. The property was purchased on 1 January 2005 for £130,000. The company spent £14,000 improving the property during March 2005, and a further £8,000 was spent on improvements during May 2009. The value of the property on 1 November 2007 was £170,000, and it has an annual value of £7,000. The furniture in the property cost £6,000 during November 2007. Andrea personally pays for the annual running costs of the property amounting to £4,000.

(4) Throughout 2009/10 Vigorous plc provided Andrea with a mobile telephone costing £500. The company paid for all business and private telephone calls.

Ben Slim

(1) Ben commenced employment with Vigorous plc on 1 July 2009.

(2) On 1 July 2009 Vigorous plc provided Ben with an interest free loan of £120,000 so that he could purchase a new main residence. He repaid £20,000 of the loan on 1 October 2009.

(3) During 2009/10 Vigorous plc paid £9,300 towards the cost of Ben's relocation. His previous main residence was 125 miles from his place of employment with the company. The £9,300 covered the cost of disposing of Ben's old property and of acquiring his new property.

(4) During the period from 1 October 2009 until 5 April 2010 Vigorous plc provided Ben with a new diesel powered company motor car which has a list price of £11,200. The official CO_2 emission rate for the motor car is 131 grams per kilometre. Ben reimburses Vigorous plc for all the diesel used for private journeys.

Chai Trim

(1) Chai was employed by Vigorous plc throughout 2009/10.

(2) During 2009/10 Vigorous plc provided Chai with a two-year old company van, although the van was unavailable during the period 1 August to 30 September 2009. No fuel was provided for private journeys.

(3) Vigorous plc has provided Chai with a television for her personal use since 6 April 2007. The television cost Vigorous plc £800 in April 2007. On 6 April 2009 the company sold the television to Chai for £150, although its market value on that date was £250.

(4) Throughout 2009/10 Vigorous plc provided Chai with free membership of its health club. The normal annual cost of membership is £800. This figure is made up of direct costs of £150, fixed overhead costs of £400 and profit of £250. The budgeted membership for the year has been exceeded, but the health club has surplus capacity.

(5) On 6 April 2009 Vigorous plc provided Chai with a new computer costing £1,900. She uses the computer at home for personal study purposes.

Required

(a) Explain what is meant by the term 'P11D employee'. **(3 marks)**

(b) Calculate the taxable benefit figures that Vigorous plc will have to include on the forms P11D for Andrea, Ben, and Chai for 2009/10. **(19 marks)**

(c) Explain how the income tax liability in respect of taxable benefits is collected by HMRC. **(3 marks)**

(Total = 25 marks)

4 Bryan Thompson **54 mins**

Bryan Thompson (age 48) is a full-time director of Watnot Ltd.

During 2009/10 he was paid a salary of £75,000 and had the private use of a car provided by his employer. The car had a list price of £25,000 when new in January 2008 and had an emissions rating (petrol) of 155g/km.

In September 2009, the company offered to replace his car with a more expensive model. Bryan declined the offer and instead on 5 October 2009 the company purchased a car with a list price of £7,500 and an emissions rating (petrol) of 135g/km for use by his wife. Bryan pays for all petrol used in his car with the company credit card. His wife pays for the petrol for use in the car provided for her use personally.

Bryan pays 10% of his salary (excluding his benefits) into his employer's occupational pension scheme. His employer matches his contribution.

Since March 2009, the company has paid £100 a month medical insurance to cover Bryan and his family. In January 2010, his son had a minor operation on his leg costing £1,800 which was paid for by the insurance company.

During August 2009, Bryan attended an international business conference in Florida. His wife went with him for a holiday. They stayed for five nights and the cost of the double room was £100 per night upgraded from £75 per night for the single room originally booked for Bryan. The return air fares were £1,000 each. All costs were paid by the company.

In December 2009, Bryan was transferred to the new head office 200 miles from his original office which necessitated moving house. The company paid the following expenses in connection with his move:

	£
Agents' fees	4,500
Removal costs	750
Stamp Duty Land Tax	10,500
Legal fees	1,800

Bryan and his wife also receive income from a furnished house they jointly own. During 2009/10 the income and expenses were:

	£
Rental income	20,000
Caretaker's wages	2,600
Heat and light	1,400
Interest on loan to purchase property	6,000

In February 2010 Bryan received net interest of £3,200 from a two year high interest savings account which had matured. He received a dividend of £1,800 from Adams plc, a UK company in June 2009.

Required

(a) Calculate Bryan's net assessable income and tax liability for 2009/10. **(25 marks)**

(b) Calculate Bryan's NIC due for 2009/10. **(5 marks)**

(Total = 30 marks)

5 Sam and Kim White (TX 06/08) **45 mins**

Sam and Kim White are a married couple. Sam is aged 36 and Kim is aged 38. The following information is available for the tax year 2009/10:

Sam White

(1) Sam is self-employed running a retail clothing shop. His profit and loss account for the year ended 5 April 2010 is as follows:

	Note	£	£
Gross profit			140,300
Depreciation		7,600	
Motor expenses	2	8,800	
Patent royalties	3	700	
Professional fees	4	1,860	
Other expenses	5	71,340	
			(90,300)
Net profit			50,000

(2) During the year ended 5 April 2010 Sam drove a total of 25,000 miles, of which 5,000 miles were driven when he visited his suppliers in Europe. The balance of the mileage is 25% for private journeys and 75% for business journeys in the United Kingdom.

(3) During the year ended 5 April 2010 Sam paid patent royalties of £700 (gross) in respect of specialized technology that he uses when altering clothes for customers.

(4) The figure for professional fees consists of £1,050 for legal fees in connection with an action brought against a supplier for breach of contract and £810 for accountancy. Included in the figure for accountancy is £320 in respect of personal capital gains tax advice for the tax year 2008/09.

(5) The figure for other expenses of £71,340 includes £560 for gifts to customers of food hampers costing £35 each and £420 for gifts to customers of pens carrying an advertisement for the clothing shop costing £60 each.

(6) Sam uses one of the eight rooms in the couple's private house as an office for when he works at home. The total running costs of the house for the year ended 5 April 2010 were £5,120. This cost is not included in the profit and loss account expenses of £90,300.

(7) Sam uses his private telephone to make business telephone calls. The total cost of the private telephone for the year ended 5 April 2010 was £1,600, and 25% of this related to business telephone calls. The cost of the private telephone is not included in the profit and loss account expenses of £90,300.

(8) During the year ended 5 April 2010 Sam took goods out of the clothing shop for his personal use without paying for them and no entry has been made in the accounts to record this. The goods cost £820, and had a selling price of £1,480.

(9) The tax written down values for capital allowance purposes at 6 April 2009 were as follows:

	£
Main pool	18,500
Expensive motor car	20,200

The expensive motor car is used by Sam.

Kim White

(1) Kim is employed as a sales person by Sharp-Suit plc, a clothing manufacturing company. During the tax year 2009/10 she was paid a gross annual salary of £21,600.

(2) On 1 June 2009 Sharp-Suit plc provided Kim with an interest free loan of £12,000 so that she could purchase a new motor car.

(3) During the period from 1 June 2009 to 5 April 2010 Kim used her private motor car for business and private purposes. She received no reimbursement from Sharp-Suit plc for any of the expenditure incurred. Kim's mileage during this period included the following:

		Miles
	Normal daily travel between home and permanent workplace	3,400
	Travel between permanent workplace and Sharp-Suit plc's customers	11,200
	Travel between home and a temporary workplace for a period of one month	1,300

(4) During the tax year 2009/10 Kim paid interest of £140 (gross) on a personal loan taken out on 1 January 2009 to purchase a laptop computer for use in her employment with Sharp-Suit plc.

Joint income – Building society deposit account

The couple have savings of £25,000 in a building society deposit account which is in their joint names.

During the tax year 2009/10 Sam and Kim received building society interest totalling £1,200 from this joint account.

This was the actual cash amount received.

Required

(a) Calculate Sam's tax adjusted trading profit for the year ended 5 April 2010.

Note: Your computation should start with net profit for the period of £50,000 and should list all of the items in the profit and loss account indicating by the use of a zero (0) any items that do not require adjustment.

(11 marks)

(b) Calculate Sam and Kim's respective income tax liabilities for the tax year 2009/10.

Note: you should ignore any capital allowances that Kim might be entitled to. **(10 marks)**

(c) Explain to Sam and Kim how their overall income tax liability could be reduced if they were to either:

(i) transfer their joint building society deposit account into individual savings accounts (ISAs); or **(2 marks)**

(ii) transfer their joint building society deposit account into Kim's sole name. **(2 marks)**

(Total = 25 marks)

6 Edmond Brick (TX 12/07) — 27 mins

Edmond Brick owns four properties which are let out. The following information relates to the tax year 2009/10:

Property one

This is a freehold house that qualifies as a trade under the furnished holiday letting rules. The property was purchased on 6 April 2009. During the tax year 2009/10 the property was let for eighteen weeks at £370 per week. Edmond spent £5,700 on furniture and kitchen equipment during April 2009. Due to a serious flood £7,400 was spent on repairs during November 2009. The damage was not covered by insurance. The other expenditure on this property for the tax year 2009/10 amounted to £2,710, and this is all allowable.

Property two

This is a freehold house that is let out furnished. The property was let throughout the tax year 2009/10 at a monthly rent of £575, payable in advance. During the tax year 2009/10 Edmond paid council tax of £1,200 and insurance of £340 in respect of this property. He claims the wear and tear allowance for this property.

Property three

This is a freehold house that is let out unfurnished. The property was purchased on 6 April 2009, and it was empty until 30 June 2009. It was then let from 1 July 2009 to 31 January 2010 at a monthly rent of £710, payable in advance. On 31 January 2010 the tenant left owing three months rent which Edmond was unable to recover. The property was not re-let before 5 April 2010. During the tax year 2009/10 Edmond paid insurance of £290 for this property and spent £670 on advertising for tenants. He also paid loan interest of £6,700 in respect of a loan that was taken out to purchase this property.

Property four

This is a leasehold office building that is let out unfurnished. Edmond pays an annual rent of £6,800 for this property, but did not pay a premium when he acquired it. On 6 April 2009 the property was sub-let to a tenant, with

Edmond receiving a premium of £15,000 for the grant of a five-year lease. He also received the annual rent of £4,600 which was payable in advance. During the tax year 2009/10 Edmond paid insurance of £360 in respect of this property.

Furnished room

During the tax year 2009/10 Edmond rented out one furnished room of his main residence. During the year he received rent of £5,040, and incurred allowable expenditure of £1,140 in respect of the room. Edmond always computes the taxable income for the furnished room on the most favourable basis.

Required

(a) State the income tax advantages of property one being treated as a trade under the furnished holiday letting rules. **(3 marks)**

(b) Calculate Edmond's furnished holiday letting loss in respect of property one for the tax year 2009/10. **(3 marks)**

(c) Calculate Edmond's property business profit in respect of the other three properties and the furnished room for the tax year 2009/10. **(9 marks)**

(Total = 15 marks)

7 Peter Chic (TX 12/08) 45 mins

Peter Chic is employed by Haute-Couture Ltd as a fashion designer. The following information is available for the tax year 2009/10:

Employment

(1) During the tax year 2009/10 Peter was paid a gross annual salary of £45,600 by Haute-Couture Ltd. Income tax of £14,670 was deducted from this figure under PAYE.

(2) In addition to his salary, Peter received two bonus payments from Haute-Couture Ltd during the tax year 2009/10. The first bonus of £4,300 was paid on 30 April 2009 and was in respect of the year ended 31 December 2008. Peter became entitled to this first bonus on 10 April 2009. The second bonus of £3,600 was paid on 31 March 2010 and was in respect of the year ended 31 December 2009. Peter became entitled to this second bonus on 25 March 2010.

(3) Throughout the tax year 2009/10 Haute-Couture Ltd provided Peter with a diesel powered motor car which has a list price of £22,500. The motor car cost Haute-Couture Ltd £21,200, and it has an official CO_2 emission rate of 227 grams per kilometre. Peter made a capital contribution of £2,000 towards the cost of the motor car when it was first provided to him. Haute-Couture Ltd also provided Peter with fuel for private journeys.

(4) Haute-Couture Ltd has provided Peter with living accommodation since 1 January 2007. The company had purchased the property in 2006 for £160,000, and it was valued at £185,000 on 1 January 2007. Improvements costing £13,000 were made to the property during June 2008. The annual value of the property is £8,225.

(5) Throughout the tax year 2009/10 Haute-Couture Ltd provided Peter with two mobile telephones. The telephones had each cost £250 when purchased by the company in January 2009.

(6) On 5 January 2010 Haute-Couture Ltd paid a health club membership fee of £510 for the benefit of Peter.

(7) During February 2010 Peter spent five nights overseas on company business. Haute-Couture Ltd paid Peter a daily allowance of £10 to cover the cost of personal expenses such as telephone calls to his family.

Property income

(1) Peter owns two properties, which are let out. Both properties are freehold houses, with the first property being let out furnished and the second property being let out unfurnished.

(2) The first property was let from 6 April 2009 to 31 August 2009 at a monthly rent of £500, payable in advance. On 31 August 2009 the tenant left owing two months' rent which Peter was unable to recover. The

property was not re-let before 5 April 2010. During March 2010 Peter spent £600 repairing the roof of this property.

(3) The second property was purchased on 1 July 2009, and was then let from 1 August 2009 to 5 April 2010 at a monthly rent of £820, payable in advance. During July 2009 Peter spent £875 on advertising for tenants. For the period 1 July 2009 to 5 April 2010 he paid loan interest of £1,800 in respect of a loan that was taken out to purchase this property.

(4) Peter insured both of his rental properties at a total cost of £660 for the year ended 30 June 2009, and £1,080 for the year ended 30 June 2010. The insurance is payable annually in advance.

(5) Where possible, Peter claims the wear and tear allowance.

Other information

(1) During the tax year 2009/10 Peter received building society interest of £1,760 and dividends of £720. These were the actual cash amounts received.

(2) On 4 August 2009 Peter received a premium bond prize of £100.

(3) During the tax year 2009/10 Peter made gift aid donations totaling £2,400 (net) to national charities.

Required

(a) Calculate the income tax payable by Peter Chic for the tax year 2009/10. **(21 marks)**

(b) Calculate the total amount of national insurance contributions that will have been paid by Peter Chic and Haute-Couture Ltd in respect of Peter's earnings and benefits for the tax year 2009/10. **(4 marks)**

(Total = 25 marks)

8 Peach, Plum and Pear (TX 12/08) 18 mins

You are a trainee accountant and your manager has asked for your help regarding three taxpayers who have all made personal pension contributions during the tax year 2009/10.

Ann Peach

Ann, aged 30, is self-employed as an estate agent. Her trading profit for the year ended 5 April 2010 was £49,100. Ann made contributions of £52,000 (gross) into a personal pension scheme during the tax year 2009/10.

Basil Plum

Basil, aged 42, is employed by the Banana Bank plc as a fund manager. During the tax year 2009/10 Basil was paid a gross salary of £330,000. Basil made contributions of £270,000 (gross) into a personal pension scheme during the tax year 2009/10. He is not a member of Banana Bank plc's occupational pension scheme.

Chloe Pear

Chloe, aged 54, lets out unfurnished property. For the tax year 2009/10 her property business profit was £25,000. Chloe made contributions of £8,200 (gross) into a personal pension scheme during the tax year 2009/10.

Neither Ann nor Basil nor Chloe has any other income.

Required

For each of the three taxpayers Ann Peach, Basil Plum and Chloe Pear, state, giving reasons the amount of personal pension contributions that will have qualified for tax relief for the tax year 2009/10, and calculate their income tax liabilities for that year.

Note: marks are allocated: Ann Peach 3 marks; Basil Plum 5 marks; and Chloe Pear 2 marks. **(Total = 10 marks)**

9 Noel and Liam Wall (BTX 06/07) **45 mins**

Noel and Liam Wall are brothers. Noel has more income than Liam, so he is surprised that for the tax year 2009/10 his total income tax liability and national insurance contributions were much lower than Liam's. The following information is available for the tax year 2009/10:

Noel Wall

(1) Noel is a self-employed musician. His profit and loss account for the year ended 5 April 2010 was as follows:

	£	£
Fee income		86,240
Depreciation	1,980	
Motor expenses (note 2)	5,600	
Professional fees (note 3)	2,110	
Repairs and renewals (note 4)	2,360	
Telephone (note 5)	830	
Travelling and entertaining (note 6)	960	
Other expenses (note 7)	2,050	
		(15,890)
Net profit		70,350

(2) During the year ended 5 April 2010 Noel drove a total of 8,400 miles, of which 7,560 were for business journeys.

Noel's motor car had a tax written down value of £32,800 at 6 April 2009.

(3) The figure for professional fees consists of £840 for accountancy fees, £510 for personal tax advice in respect of the tax year 2008/09, and £760 for legal fees in connection with the defence of Noel's business internet domain name.

(4) The figure for repairs and renewals consists of £1,900 for a new guitar, and £460 for repairing this guitar when it was damaged.

(5) Noel uses his mobile telephone to make business telephone calls. The total cost of the mobile telephone is included in the profit and loss account as an expense, although £160 of this cost relates to private telephone calls.

(6) The figure for travelling and entertaining includes £370 for entertaining clients, and £120 for parking fines.

(7) The figure for other expenses includes £100 for a donation to a political party, £230 for a trade subscription to the Institute of Musicians, and £625 for Noel's golf club membership fee.

(8) In addition to his self-employed income, Noel received dividends of £7,560 during the tax year 2009/10. This was the actual cash amount received.

Liam Wall

(1) Liam is employed as a music producer by Forever Ltd. The company runs a recording studio. During the tax year 2009/10 he was paid a gross annual salary of £65,000.

(2) Throughout the tax year 2009/10 Forever Ltd provided Liam with a diesel powered motor car which has a list price of £32,400. The official CO_2 emission rate for the motor car is 216 grams per kilometre. The company also provided Liam with fuel for private journeys.

(3) On 6 July 2009 Forever Ltd provided Liam with a new computer costing £1,800. He uses the computer at home for personal internet browsing.

(4) On 6 August 2009 Forever Ltd provided Liam with a mobile telephone costing £350. This is the only mobile telephone that has been provided to Liam by Forever Ltd.

(5) On 1 December 2009 Forever Ltd paid a golf club membership fee of £580 for the benefit of Liam.

(6) On 1 January 2010 Liam paid a professional subscription of £220 to the Guild of Producers, a HM Revenue & Customs' approved professional body.

(7) In addition to his employment income, Liam received building society interest of £6,640 during the tax year 2009/10. This was the actual cash amount received.

Required

(a) Calculate Noel's income tax liability and national insurance contributions for the tax year 2009/10**.**

Note: Your computation of Noel's trading income should start with net profit for the period of £70,350 and should list all of the items in the profit and loss account indicating by the use of a zero (0) any items that do not require adjustment. **(15 marks)**

(b) Calculate Liam's income tax liability and national insurance contributions for the tax year 2009/10. **(10 marks)**

(Total = 25 marks)

10 Tony Note (BTX 06/06) — 45 mins

Tony Note is self-employed running a music shop. His profit and loss account for the year ended 5 April 2010 is as follows:

	£	£
Gross profit		198,000
Expenses:		
Depreciation	2,640	
Motor expenses (1)	9,800	
Professional fees (2)	4,680	
Repairs and renewals (3)	670	
Travelling and entertaining (4)	4,630	
Wages and salaries (5)	77,200	
Other expenses (6)	78,780	
		(178,400)
Net profit		19,600

(1) Motor expenses

During the year ended 5 April 2010 Tony drove a total of 20,000 miles, of which 2,500 were driven when he went on holiday to Europe. The balance of the mileage is 20% for private journeys and 80% for business journeys.

(2) Professional fees

The figure for professional fees consists of £920 for accountancy, £620 for personal financial planning advice, £540 for debt collection, and £2,600 for fees in connection with an unsuccessful application for planning permission to enlarge Tony's freehold music shop.

(3) Repairs and renewals

The figure for repairs and renewals consists of £270 for a replacement hard drive for the shop's computer, and £400 for a new printer for this computer.

(4) Travelling and entertaining

The figure for travelling and entertaining consists of £3,680 for Tony's business travelling expenses, £480 for entertaining suppliers, and £470 for entertaining employees.

(5) Wages and salaries

The figure for wages and salaries includes a salary of £16,000 paid to Tony's wife. She works in the music shop as a sales assistant. The other sales assistants doing the same job are paid a salary of £12,000 p.a.

(6) Other expenses

The figure for other expenses includes £75 in respect of a wedding present to an employee, £710 for Tony's health club subscription, £60 for a donation to a political party, and £180 for a trade subscription to the Guild of Musical Instrument Retailers.

(7) Use of office

Tony uses one of the six rooms in his private house as an office for when he works at home. The total running costs of the house for the year ended 5 April 2010 were £4,320.

(8) Private telephone

Tony uses his private telephone to make business telephone calls. The total cost of the private telephone for the year ended 5 April 2010 was £680, and 25% of this related to business telephone calls. The cost of the private telephone is not included in the profit and loss account expenses of £178,400.

(9) Goods for own use

During the year ended 5 April 2010 Tony took goods out of the music shop for his personal use without paying for them, and no entry has been made in the accounts to record this. The goods cost £600, and had a selling price of £950.

(10) Plant and machinery

The tax written down values for capital allowances purposes at 6 April 2009 were as follows:

	£
Main pool	7,400
Expensive motor car	16,200

The expensive motor car is used by Tony.

Disposal of freehold music shop

On 10 November 2009 Tony sold his freehold music shop for £320,000. The shop had been purchased for £188,000, and was always used by Tony for business purposes. Tony has claimed to roll over the gain arising on the music shop against the cost of a new freehold music shop that he purchased on 4 October 2009 for £210,000.

Required

(a) Calculate Tony's tax adjusted trading profit for the year ended 5 April 2010.

Note: Your computation should start with net profit for the period of £19,600 and should list all of the items in the profit and loss account indicating by the use of a zero (0) any items that do not require adjustment. **(16 marks)**

(b) Calculate Tony's income tax and capital gains tax liabilities for the tax year 2009/10. **(6 marks)**

(c) Advise Tony as to how long he must retain the records used in preparing his tax return for 2009/10, and the potential consequences of not retaining the records for the required period. **(3 marks)**

(Total = 25 marks)

11 Malcolm 27 mins

(a) Malcolm started in business as a self-employed builder on 1 August 2008. His adjusted trading results, after capital allowances, were:

	£
Period ended 30 November 2008	(10,000) Loss
Year ended 30 November 2009	(20,000) Loss
Year ended 30 November 2010	16,000 Profit

Prior to being self-employed Malcolm was employed as a builder when his earnings were:

	£
2008/09 (to 31 July 2008)	7,500
2007/08	8,000
2006/07	NIL

He received annual building society interest income of £3,040 (net) from 2007/08 onwards. In 2008/09 he realised a capital gain on the disposal of a non-business asset of £9,900 before the annual exemption.

Required

Show how Malcolm's trading losses can be utilised most effectively, giving your reasoning.

You may assume the 2009/10 rates and allowances apply to all years relevant to this question. **(12 marks)**

(b) You are required to state by what date(s) the claims you are proposing in part (a) should be submitted. **(3 marks)**

(Total = 15 marks)

12 Robert Sax 27 mins

Robert Sax commenced trading on 1 June 2002 drawing up accounts to 30 September. His adjusted profits were as follows:

	£
1.6.02 – 30.9.03	30,000
y/e 30.9.04	40,000
y/e 30.9.05	50,000
y/e 30.9.06	60,000
y/e 30.9.07	55,000

He decided to change his accounting date to 31 December. Profits were as follows:

	£
1.10.07 – 31.12.08	75,000
y/e 31.12.09	40,000

He decided to retire on 31 March 2010. His profits of his final 3 months of trade were £12,000.

Required

Calculate the assessments for all years. **(15 marks)**

13 Vanessa Serve and Serene Volley (TX 12/07) 54 mins

(a) Vanessa Serve and Serene Volley, aged 32 and 35 years respectively, are sisters. The following information is available for the tax year 2009/10:

Vanessa Serve

(1) Vanessa is self-employed as a tennis coach. Her tax adjusted trading profit for the year ended 5 April 2010 is £52,400. However, this figure is before taking account of capital allowances.

(2) The only item of plant and machinery owned by Vanessa is her motor car. This originally cost £19,400, and at 6 April 2009 had a tax written down value of £13,000. During the year ended 5 April 2010 Vanessa drove a total of 20,000 miles, of which 6,000 were for private journeys.

(3) Vanessa contributed £6,400 (gross) into a personal pension scheme during the tax year 2009/10.

(4) In addition to her self-employed income, Vanessa received interest of £1,100 from an investment account at National Savings & Investments during the tax year 2009/10. This was the actual cash amount received.

(5) Vanessa's payments on account in respect of the tax year 2009/10 totalled £8,460.

Serene Volley

(1) Serene is employed as a sports journalist by Backhand plc, a newspaper publishing company. During the tax year 2009/10 she was paid a gross annual salary of £26,400. Income tax of £4,490 was deducted from this figure under PAYE.

(2) Throughout the tax year 2009/10 Backhand plc provided Serene with a petrol powered motor car which has a list price of £16,400. The official CO_2 emission rate for the motor car is 187 grams per kilometre. The company did not provide Serene with any fuel for private journeys.

(3) Serene contributed 5% of her gross salary of £26,400 into Backhand plc's HM Revenue and Customs' registered occupational pension scheme.

(4) In addition to her employment income, Serene received interest of £1,200 on the maturity of a savings certificate from National Savings & Investments during the tax year 2009/10. This was the actual cash amount received.

(5) Serene did not make any payments on account in respect of the tax year 2009/10.

Required

(i) Calculate the income tax payable by Vanessa and Serene respectively for the tax year 2009/10. **(11 marks)**

(ii) Calculate the national insurance contributions payable by Vanessa and Serene respectively for the tax year 2009/10. **(4 marks)**

(iii) Calculate Vanessa and Serene's respective balancing payments for the tax year 2009/10 and their payments on account, if any, for the tax year 2010/11. You should state the relevant due dates. **(5 marks)**

(b) Note that in answering this part of the question you are not expected to take account of any of the information provided in part (a) above.

Unless stated otherwise all of the figures below are exclusive of VAT.

Vanessa Serve is registered for value added tax (VAT), and is in the process of completing her VAT return for the quarter ended 31 March 2010. The following information is available:

(1) Sales invoices totalling £18,000 were issued in respect of standard rated sales. All of Vanessa's customers are members of the general public.

(2) During the quarter ended 31 March 2010 Vanessa spent £600 on mobile telephone calls, of which 40% related to private calls.

(3) On 3 January 2010 Vanessa purchased a motor car for £12,000. On 18 March 2010 £987 was spent on repairs to the motor car. The motor car is used by Vanessa in her business, although approximately 10% of the mileage is for private journeys. Both figures are inclusive of VAT at the standard rate.

(4) On 29 March 2010 tennis coaching equipment was purchased for £1,760. Vanessa paid for the equipment on this date, but did not take delivery of the equipment or receive an invoice until 3 April 2010. This purchase was standard rated.

(5) In addition to the above, Vanessa also had other standard rated expenses amounting to £2,200 in the quarter ended 31 March 2010. This figure includes £400 for entertaining customers.

Required

(i) Calculate the amount of VAT payable by Vanessa for the quarter ended 31 March 2010. **(5 marks)**

(ii) Advise Vanessa of the condition that she must satisfy before being permitted to use the VAT flat rate scheme, and the advantages of joining the scheme. The relevant flat rate scheme percentage for Vanessa's trade as notified by HM Revenue and Customs is 6%.

Note: your answer should be supported by appropriate calculations of the amount of tax saving if Vanessa had used the flat rate scheme to calculate the amount of VAT payable for the quarter ended 31 March 2010. **(5 marks)**

(Total = 30 marks)

14 Danielle **27 mins**

Danielle has been a self-employed trader since 1996. She has the following gross income and chargeable gains for the tax years 2006/07 to 2010/11:

	2006/07	*2007/08*	*2008/09*	*2009/10*	*2010/11*
	£	£	£	£	£
Trading profit/(loss)	22,290	30,250	51,600	(150,000)	12,390
Building society interest	4,000	5,200	12,100	10,800	1,500
Chargeable gains/(loss)	0	20,100	23,300	(3,400)	13,500

The chargeable gains are stated before taking account of loss relief and the annual exemption.

Required

(a) State the factors that will influence an individual's choice of loss relief claims. **(3 marks)**

(b) Calculate Danielle's taxable income and taxable gains for each of the tax years 2006/07, 2007/08, 2008/09, 2009/10 and 2010/11 on the assumption that she relieves the trading loss of £150,000 for the tax year 2009/10 on the most favourable basis.

You should assume that the tax rates and allowances for the tax year 2009/10 apply throughout. **(12 marks)**

(Total = 15 marks)

15 Roger and Brigitte **27 mins**

Roger and Brigitte commenced in business on 1 October 2005 as hotel proprietors, sharing profits equally.

On 1 October 2007 their son Xavier joined the partnership and from that date each of the partners was entitled to one-third of the profits.

The profits of the partnership adjusted for income tax, are:

	£
Period ended 30 June 2006	30,000
Year ended 30 June 2007	45,000
Year ended 30 June 2008	50,000
Year ended 30 June 2009	60,000

Required

(a) Calculate the assessable profits on each of the partners for all relevant years from 2005/06 to 2009/10. **(11 marks)**

(b) Calculate the overlap profits for each of the partners. **(4 marks)**

(Total = 15 marks)

16 Wright and Wong **18 mins**

Geoff Wright and Sam Wong are in partnership running a design studio, with profits being shared in the ratio 4:1. They both wish to start saving for their retirement and would like to make maximum contributions to a pension. They have heard that the rules have recently changed. The partnership's trading profit for 2009/10 is £175,000. Neither Geoff or Sam has any other income.

Required

(a) Advise Geoff and Sam of the maximum amount they can each contribute in 2009/10 to obtain tax relief. **(4 marks)**

(b) Explain the method by which Geoff and Sam will be given tax relief for their pension contributions and show their income tax liability. **(5 marks)**

(c) Explain how they will be able to continue to contribute to their pensions if the partnership ceases trading on 5 April 2010 and they no longer have earnings. **(1 mark)**

(Total = 10 marks)

17 Amy Bwalya (BTX 06/06) **27 mins**

(a) Amy Bwalya commenced in self-employment on 1 August 2007, preparing accounts to 31 May. Her trading profits for the first two periods of trading were as follows:

	£
Ten-month period ended 31 May 2008	38,500
Year ended 31 May 2009	52,800

Required

Calculate the amount of trading profits that will have been assessed on Amy for the tax years 2007/08, 2008/09 and 2009/10. Your answer should show the amount of overlap profits. **(5 marks)**

(b) Cedric Ding and Eli Fong commenced in partnership on 6 April 2005, preparing accounts to 5 April. Cedric resigned as a partner on 31 December 2009, and Gordon Hassan joined as a partner on 1 January 2010. The partnership's trading profit for the year ended 5 April 2010 is £90,000. Profits were shared as follows:

(1) Eli was paid an annual salary of £6,000.

(2) Interest was paid at the rate of 10% on the partners' capital accounts, the balances on which were:

	£
Cedric	40,000
Eli	70,000
Gordon (from 1 January 2010)	20,000

Cedric's capital account was repaid to him on 31 December 2009.

(3) The balance of profits were shared:

	Cedric	*Eli*	*Gordon*
	%	%	%
6 April 2009 to 31 December 2009	60	40	
1 January 2010 to 5 April 2010		70	30

Required

Calculate the trading income assessments of Cedric, Eli and Gordon for the tax year 2009/10. **(5 marks)**

(c) Ivan Jha ceased trading on 31 December 2009. He had commenced in self-employment on 1 October 2002, initially preparing accounts to 30 September. His overlap profits for the period 1 October 2002 to 5 April 2003 were £4,500. Ivan subsequently changed his accounting date to 30 June by preparing accounts for the nine month period to 30 June 2008. His trading profits for the final four periods of trading were as follows:

	£
Year ended 30 September 2007	36,000
Nine-month period ended 30 June 2008	23,400
Year ended 30 June 2009	28,800
Six-month period ended 31 December 2009	10,800

Required

Calculate the amount of trading profits that will have been assessed on Ivan for the tax years 2007/08, 2008/09 and 2009/10. **(5 marks)**

(Total = 15 marks)

18 Ae, Bee, Cae, Dee and Eu (TX 06/09) 27 mins

(a) Ae and Bee commenced in partnership on 1 July 2007 preparing accounts to 30 June. Cae joined as a partner on 1 July 2009. Profits have always been shared equally. The partnership's trading profits since the commencement of trading have been as follows:

	£
Year ended 30 June 2008	54,000
Year ended 30 June 2009	66,000
Year ended 30 June 2010	87,000

Required

Calculate the trading income assessments of Ae, Bee and Cae for each of the tax years 2007/08, 2008/09 and 2009/10. **(5 marks)**

(b) Dee commenced in self-employment on 6 April 2006. She initially prepared accounts to 5 April, but changed her accounting date to 31 July by preparing accounts for the four-month period to 31 July 2008. Dee's trading profits since she commenced trading have been as follows:

	£
Year ended 5 April 2007	35,160
Year ended 5 April 2008	32,880
Four-month period ended 31 July 2008	16,240
Year ended 31 July 2009	54,120

Required

(i) Calculate the amount of trading profits that will have been assessed on Dee for each of the tax years 2007/08, 2008/09 and 2009/10. **(4 marks)**

(ii) State the amount of Dee's unrelieved overlap profits as at 5 April 2010. **(1 mark)**

(c) Eu ceased trading on 30 September 2011, having been self-employed since 1 July 2003.

(1) Eu's trading profits for the final two periods of trading were as follows:

	£
Year ended 30 June 2010	62,775
Fifteen-month period ended 30 September 2011	72,000

Both these figures are before taking account of capital allowances.

(2) The tax written-down value of the capital allowances main pool at 1 July 2009 was £7,875. On 15 November 2010 Eu purchased office furniture for £2,400. All of the items included in the main pool were sold for £4,300 on 30 September 2011.

(3) Until the final period of trading Eu had always prepared accounts to 30 June. Her overlap profits for the period 1 July 2003 to 5 April 2004 were £19,800.

Required

Calculate the amount of trading profits that will have been assessed on Eu for each of the tax years 2010/11 and 2011/12. Assume the rates and rules of income tax applying in 2009/10 apply in later years. **(5 marks)**

(Total = 15 marks)

19 Vera Old (BTX 06/05) — 27 mins

Vera Old has been a self-employed antiques dealer since 1998. Her tax liabilities for 2008/09 and 2009/10 are as follows:

	2008/09	*2009/10*
	£	£
Income tax liability	8,240	4,770
Tax suffered at source	(810)	(640)
Income tax payable	7,430	4,130
Class 4 national insurance contributions	1,660	1,230
	9,090	5,360
Capital gains tax liability	1,820	700
	10,910	6,060

Required

(a) Assuming that Vera does not make a claim to reduce the payments on account, prepare a schedule of her payments on account and balancing payment or repayment for 2009/10. Your answer should show the relevant due dates of each payment/repayment. **(3 marks)**

(b) (i) Advise Vera of the claim that she should make to reduce her payments on account for 2009/10. **(2 marks)**

(ii) State the implications if Vera were to instead make a claim to reduce her payments on account for 2009/10 to nil. **(2 marks)**

(c) Advise Vera of the latest date by which her self-assessment tax return for 2009/10 should be submitted, and the implications if it is submitted three months late. **(3 marks)**

(d) (i) Assuming that her self-assessment tax return for 2009/10 is submitted on time, state the date by which HMRC will have to notify Vera if they intend to enquire into the return, and the possible reasons why such an enquiry would be made. **(3 marks)**

(ii) State the circumstances in which HMRC would be entitled to raise a discovery assessment in respect of Vera's self-assessment tax return for 2009/10. **(2 marks)**

(Total = 15 marks)

20 Pi Casso (TX 06/08) — 27 mins

Pi Casso has been a self-employed artist since 1991, making up her accounts to 30 June. Pi's tax liabilities for the tax years 2007/08, 2008/09 and 2009/10 are as follows:

	2007/08	*2008/09*	*2009/10*
	£	£	£
Income tax liability	3,240	4,100	2,730
Class 2 national insurance contributions	114	120	125
Class 4 national insurance contributions	1,240	1,480	990
Capital gains tax liability	–	4,880	–

No income tax has been deducted at source.

Required

(a) Prepare a schedule showing the payments on account and balancing payments that Pi will have made or will have to make during the period from 1 July 2009 to 31 March 2011 if Pi makes any appropriate claims to reduce her payments on account, clearly identifying the relevant due date of each payment **(8 marks)**

(b) State the implications if Pi had made a claim to reduce her payments on account for 2009/10 to nil. **(2 marks)**

(c) Advise Pi of the latest submission date for her 2009/10 self-assessment tax return. **(2 marks)**

(d) State the date by which HMRC will have to notify Pi if they intend to enquire into her self-assessment tax return for 2009/10 and the possible reasons why such an enquiry would be made. **(3 marks)**

(Total = 15 marks)

CHARGEABLE GAINS FOR INDIVIDUALS

Questions 21 to 27 cover the taxation of chargeable gains for individuals, the subject of Part C of the BPP Study Text for Paper F6.

21 Stephanie Wood — 36 mins

Details of Stephanie's capital disposals in 2009/10 are given below:

(1) Shares in North Seaton Ltd

Stephanie sold 3,000 shares (a 30% holding) on 27 July 2009 for £16,800. She had bought 2,000 shares in January 1993 for £1,200 and a further 1,000 shares on 4 August 2000 for £1,400. In December 2000 there was a 1:2 rights issue at £2 per share which Stephanie took up in full. North Seaton Ltd is an unlisted manufacturing company in the north of England. Stephanie has been employed by North Seaton Ltd since July 2006.

(2) 96 Burnside Close

Sold on 31 August 2009 for £150,000 (before estate agents fees of £1,750). She had bought the house on 28 February 1989 for £25,000 and had lived there until 27 August 1997 when she moved in with her boyfriend Steve. The house was redecorated then let out from 1 March 1999 until sale.

(3) Painting

Stephanie sold an oil painting in October 2009 for £2,800 at auction. Costs of disposal were £280. She had originally purchased the painting for £8,000.

(4) Land

Stephanie sold a one acre plot of land in March 2010 for £19,000. She had bought a 7 acre site for £12,000. The value of the remaining 6 acres in March 2010 was £125,000.

(5) Vase

On 16 April 2009 Stephanie sold a large vase for £9,000. She had acquired the vase for £4,400.

Stephanie had capital losses of £1,833 brought forward from 2008/09.

Required

(a) Calculate Stephanie's CGT liability for 2009/10, claiming all available reliefs. **(17 marks)**

(b) Briefly explain why the disposal of the shares in North Seaton Ltd is eligible for relief. **(3 marks)**

(Total = 20 marks)

22 Jack Chan — 36 mins

Jack Chan has been in business as a sole trader since 1 May 2002. On 28 February 2010 he transferred the business to his daughter Jill, at which time the following assets were sold to her:

(1) Goodwill with a market value of £60,000. The goodwill has been built up since 1 May 2002, and has a nil cost. Jill paid Jack £50,000 for the goodwill.

(2) A freehold office building with a market value of £130,000. The office building was purchased for £110,000 and has always been used by Jack for business purposes. Jill paid Jack £105,000 for the office building.

(3) A freehold warehouse with a market value of £140,000. The warehouse was purchased for £95,000 and has never been used by Jack for business purposes. Jill paid Jack £135,000 for the warehouse.

(4) A motor car with a market value of £25,000. The motor car was purchased for £23,500, and has always been used by Jack for business purposes. Jill paid Jack £20,000 for the motor car.

Where possible, Jack and Jill have elected to hold over any gains arising.

Jack also made the following disposals during the year.

(5) On 1 May 2009 he sold a picture for £30,000 – he had acquired this for £10,000.

(6) He sold his entire holding of 12,000 ordinary shares (a 1% holding) in Coleman plc for £16,000 on 1 June 2009. He had purchased 10,000 shares in January 2003 for £8,000. In December 2004 there was a 1:5 bonus issue.

(7) He sold three acres of a twelve acre plot of land for £45,600 on 1 November 2009. He had acquired the original plot of land for £125,000. He refused an offer of £250,000 for the remaining nine acres.

Jack has unused capital losses of £6,100 brought forward from 2008/09.

Required

(a) Calculate Jack's capital gains tax liability for 2009/10, and advise him by when this should be paid. Assume that gift relief is claimed where possible and entrepreneurs' relief is not claimed. **(14 marks)**

(b) Recalculate Jack's capital gains tax liability assuming he claims entrepreneurs' relief but does not claim gift relief. **(6 marks)**

(Total = 20 marks)

23 Peter Shaw — 36 mins

Peter, aged 67, made the following disposals in 2009/10:

(1) He purchased a building for £200,000 which he let commercially as offices to an unquoted company. On 10 April 2009 he sold the building for £600,000.

(2) He held 20,000 shares in Forum Follies plc which he purchased in May 1999 for £50,000. In March 2010, Exciting Enterprises plc acquired all the share capital of Forum Follies plc. Under the terms of the take-over for every two shares previously held in Forum Follies plc shareholders received three ordinary shares in Exciting Enterprises plc plus £1 cash. Immediately after the take-over the ordinary shares in Exciting Enterprises plc were quoted at £3 each. Peter's shareholding represented less than a 1% holding in each company.

(3) Peter purchased shares in Dassau plc, a quoted company, as follows.

	No of shares	*Cost*
		£
December 1985	1,000	2,000
April 2001 1 for 2 rights issue		£2 per share

In November 2009 he sold 1,200 shares for £9,500. Peter has never worked for Dassau plc.

(4) He sold the following items on 1 August 2009:

(a) A Ming vase bought for £2,000. The sales proceeds were £8,000.

(b) A Leonardo cartoon bought for £7,200 and sold for £5,500.

(c) An item of plant bought for use in his business which cost £5,300. The sales proceeds were £8,500. Peter had claimed capital allowances on this asset.

Peter had capital losses brought forward from 2008/09 of £6,400.

Peter has a 12% shareholding in Dot Ltd, an unquoted trading company where he has worked for the past ten years. He plans to sell his shares in June 2010 and expects to realise a gain of £900,000. He is concerned that he will have to pay 18% capital gains tax on the gain.

Required

(a) Calculate the CGT payable by Peter for 2009/10 and state when it is due. **(13 marks)**

(b) Advise Peter whether he will have an 18% capital gains tax liability on the disposal of the shares in Dot Ltd. Peter will have other gains which will utilise the annual exemption for 2010/11. **(5 marks)**

(c) Explain how your answer in (b) above would differ if the gain on the sale of the Dot Ltd shares was £1,200,000. **(2 marks)**

(Total = 20 marks)

24 Paul Opus (Pilot paper) **36 mins**

Paul Opus disposed of the following assets during the tax year 2009/10:

(1) On 10 April 2009 Paul sold 5,000 £1 ordinary shares in Symphony Ltd, an unquoted trading company, for £23,600. He had originally purchased 40,000 shares in the company on 23 June 2006 for £110,400. Paul has never worked for Symphony Ltd.

(2) On 15 June 2009 Paul made a gift of his entire shareholding of 10,000 £1 ordinary shares in Concerto plc to his daughter. On that date the shares were quoted on the Stock Exchange at £5.10–£5.18, with recorded bargains of £5.00, £5.15 and £5.22. Paul's shareholding had been purchased on 29 April 1993 for £14,000. The shareholding is less than 1% of Concerto plc's issued share capital, and Paul has never been employed by Concerto plc.

(3) On 9 August 2009 Paul sold a motor car for £16,400. The motor car had been purchased for £12,800.

(4) On 4 October 2009 Paul sold an antique vase for £8,400. The antique vase had been purchased for £4,150.

(5) On 12 November 2009 a warehouse owned by Paul was damaged by fire. Insurance proceeds of £42,000 were received. Paul spent £35,000 on restoring the warehouse which had a market value prior to restoration of £85,000. Peter had purchased the warehouse for £50,000. Paul did not make a claim to disregard the part disposal on the receipt of the insurance proceeds.

(6) On 31 December 2009 Paul sold a house for £220,000. The house had been purchased on 1 April 2003 for £114,700. Paul occupied the house as his main residence from the date of purchase until 30 June 2006. The house was then unoccupied until it was sold on 31 December 2009.

(7) On 16 February 2010 Paul sold three acres of land for £285,000. He had originally purchased four acres of land for £220,000. The market value of the unsold acre of land as at 16 February 2010 was £90,000.

(8) On 5 March 2010 Paul sold a freehold holiday cottage for £125,000. The cottage had originally been purchased on 28 July 2007 for £101,600 by Paul's wife. She transferred the cottage to Paul on 16 November 2008 when it was valued at £114,800.

Required

Compute Paul's capital gains tax liability for the tax year 2009/10, and advise him by when this should be paid.

(20 marks)

25 David and Angela Brook (TX 12/07) **36 mins**

David and Angela Brook are a married couple. They disposed of the following assets during the tax year 2009/10:

Jointly owned property

(1) On 29 July 2009 David and Angela sold a classic Ferrari motor car for £34,400. The motor car had been purchased for £27,200.

(2) On 30 September 2009 David and Angela sold a house for £393,900. The house had been purchased on 1 October 1988 for £86,000. David and Angela occupied the house as their main residence from the date of purchase until 31 March 1992.

The house was then unoccupied between 1 April 1992 and 31 December 1995 due to Angela being required by her employer to work elsewhere in the United Kingdom.

From 1 January 1996 until 31 December 2003 David and Angela again occupied the house as their main residence. The house was then unoccupied until it was sold on 30 September 2009.

Throughout the period 1 October 1988 to 30 September 2009 David and Angela did not have any other main residence.

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David Brook

(1) On 18 April 2009 David sold an antique table for £5,600. The antique table had been purchased for £3,200.

(2) On 5 May 2009 David transferred his entire shareholding of 20,000 £1 ordinary shares in Bend Ltd, an unquoted investment company, to Angela. On that date the shares were valued at £64,000. David's shareholding had been purchased on 21 June 2006 for £48,000.

(3) On 14 February 2010 David made a gift of 15,000 £1 ordinary shares in Galatico plc to his son. On that date the shares were quoted on the Stock Exchange at £2.90 – £3.10. David had originally purchased 8,000 shares in Galatico plc on 15 June 2007 for £17,600, and he purchased a further 12,000 shares on 24 August 2007 for £21,600. On 10 July 2008 Galatico plc made a rights issue for 4 at £2 per share. David purchased his full entitlement of rights issue shares. David's total shareholding was less than 1% of Galatico plc's issued share capital.

Angela Brook

(1) On 5 May 2009 Angela sold an antique clock for £7,200. The antique clock had been purchased for £3,700.

(2) On 7 July 2009 Angela sold 15,000 of the 20,000 £1 ordinary shares in Bend Ltd that had been transferred to her from David. The sale proceeds were £62,400.

(3) On 1 November 2009 Angela sold her sole trader business which she had run since February 2001. Her shop was sold for £180,000 and goodwill for £40,000. The shop had been purchased for £102,000. The goodwill had no cost.

Required

Compute David and Angela's respective capital gains tax liabilities for the tax year 2009/10. **(20 marks)**

26 Wilson Biazma (TX 06/08) 36 mins

Wilson Biazma is resident and ordinarily resident in the United Kingdom for tax purposes. He disposed of the following assets during the tax year 2009/10:

(1) On 21 April 2009 Wilson sold a freehold office building for £246,000. The office building had been purchased for £144,000. Wilson has made a claim to rollover the gain on the office building against the replacement cost of a new freehold office building that was purchased on 14 January 2009 for £136,000. Both office buildings have always been used entirely for business purposes in a wholesale business run by Wilson as a sole trader.

(2) On 26 May 2009 Wilson incorporated a retail business that he had run as a sole trader since 1 June 2006. The market value of the business on 26 May 2009 was £200,000. All of the business assets were transferred to a new limited company, with the consideration consisting of 140,000 £1 ordinary shares valued at £140,000 and £60,000 in cash. The only chargeable asset of the business was goodwill and this was valued at £120,000 on 26 May 2009. The goodwill has a nil cost. Wilson took full advantage of the available incorporation relief. Wilson has not made a claim for entrepreneurs' relief.

(3) On 17 August 2009 Wilson made a gift of his entire holding of 10,000 £1 ordinary shares (a 100% holding) in Gandua Ltd, an unquoted trading company, to his daughter. The market value of the shares on that date was £160,000. The shares had been purchased on 8 January 2009 for £112,000. On 17 August 2009 the market value of Gandua Ltd's chargeable assets was £180,000, of which £150,000 was in respect of chargeable business assets. Wilson and his daughter have elected to hold over the gain on this gift of a business asset. Wilson has not made a claim for entrepreneurs' relief.

(4) On 3 October 2009 an antique vase owned by Wilson was destroyed in a fire. The antique vase had been purchased for £49,000. Wilson received insurance proceeds of £68,000 on 20 December 2009 and on 22 December 2009 he paid £69,500 for a replacement antique vase. Wilson has made a claim to defer the gain arising from the receipt of the insurance proceeds.

(5) On 9 March 2010 Wilson sold ten acres of land for £85,000. He had originally purchased twenty acres of land for £120,000. The market value of the unsold ten acres of land as at 9 March 2010 was £65,000.

Wilson's wife Diana is also resident and ordinarily resident in the United Kingdom for tax purposes. She made one disposal during 2009/10 as follows:

(6) On 17 November 2009 Diana sold 6,000 ordinary shares (a 10% holding) in WJD Ltd which is a trading company. Diana had paid £1 for each share in June 2000 and received sale proceeds of £13 per share. She had worked for WJD Ltd since June 2001. Diana has made a claim for entrepreneurs' relief.

Required

(a) Briefly explain when a person will be treated as resident or ordinarily resident in the United Kingdom for a particular tax year and state how a person's residence status establishes whether or not they are liable to capital gains tax.

Note: you are not expected to explain the rules concerning people leaving or coming to the United Kingdom.

(4 marks)

(b) Calculate Wilson's and Diana's chargeable gains for the tax year 2009/10, clearly identifying the effects of the reliefs claimed in respect of disposals (1) to (6). **(16 marks)**

(Total = 20 marks)

27 Nim and Mae (TX 06/09) — 36 mins

Nim and Mae Lom are a married couple. They disposed of the following assets during the tax year 2009/10:

Nim Lom

(1) On 20 May 2009 Nim made a gift of 10,000 £1 ordinary shares in Kapook plc to his daughter. On that date the shares were quoted on the Stock Exchange at £3.70 – £3.90, with recorded bargains of £3.60, £3.75 and £3.80. Nim has made the following purchases of shares in Kapook plc:

19 February 2001	8,000 shares for £16,200
6 June 2006	6,000 shares for £14,600
24 May 2009	2,000 shares for £5,800

Nim's total shareholding was less than 5% of Kapook plc, and so holdover relief is not available.

(2) On 13 June 2009 Nim transferred his entire shareholding of 5,000 £1 ordinary shares in Jooba Ltd, an unquoted company, to his wife, Mae. On that date the shares were valued at £28,200. Nim's shareholding had been purchased on 11 January 2007 for £16,000.

(3) On 26 November 2009 Nim sold an antique table for £8,700. The antique table had been purchased for £5,200.

(4) On 2 April 2010 Nim sold UK Government securities (Gilts) for £12,400. The securities had been purchased for £10,100.

Mae Lom

(1) On 28 August 2009 Mae sold 2,000 of the 5,000 £1 ordinary shares in Jooba Ltd that had been transferred to her from Nim (see (2) above). The sale proceeds were £30,400. Entrepreneurs' relief is not available in respect of this disposal.

(2) On 30 September 2009 Mae sold a house for £186,000. The house had been purchased on 1 October 1999 for £122,000. Throughout the period of ownership the house was occupied by Nim and Mae as their main residence, but one of the house's eight rooms was always used exclusively for business purposes by Mae. Entrepreneurs' relief is not available in respect of this disposal.

(3) On 30 November 2009 Mae sold a business that she had run as a sole trader since 1 December 2001. The sale resulted in the following capital gains:

	£
Goodwill	80,000
Freehold office building	136,000
Investment property	34,000

The assets were all owned for more than one year prior to the date of disposal. The investment property has always been rented out.

Mae claimed entrepreneurs' relief in respect of this disposal.

(4) On 31 March 2010 Mae sold a copyright for £9,600. The copyright had been purchased on 1 April 2005 for £10,000 when it had an unexpired life of 20 years.

Other information

Nim has unused capital losses of £16,700 brought forward from the tax year 2008/09.

Mae has unused capital losses of £8,500 brought forward from the tax year 2008/09.

Required

Compute Nim and Mae Lom's respective capital gains tax liabilities, if any, for the tax year 2009/10. In each case, the amount of unused capital losses carried forward to future tax years, if any, should be clearly identified.

(20 marks)

TAXATION OF COMPANIES

Questions 28 to 45 cover corporate businesses, the subject of Part E of the BPP Study Text for Paper F6.

28 Arable Ltd (BTX 06/04) 54 mins

Arable Ltd commenced trading on 1 April 2009 as a manufacturer of farm equipment, preparing its first accounts for the nine-month period ended 31 December 2009. The following information is available:

Trading income

The trading income profit is £284,600. This figure is before taking account of capital allowances and any deduction arising from the premiums paid in respect of leasehold property.

Industrial building

Arable Ltd had a new factory constructed at a cost of £400,000 that the company brought into use on 1 May 2009.

The cost was made up as follows:

	£
Land	120,000
Site preparation	14,000
Professional fees	6,000
Drawing office serving the factory	40,000
Showroom	74,000
Factory	146,000
	400,000

Plant and machinery

Arable Ltd purchased the following assets in respect of the nine-month period ended 31 December 2009:

		£
15 April 2009	Machinery	29,150
18 April 2009	Building alterations necessary for the installation of the machinery	3,700
20 May 2009	Lorry	19,000
12 June 2009	Motor car (1) CO_2 emissions 130g/km	11,200
14 June 2009	Motor car (2) CO_2 emissions 170g/km	29,200
17 June 2009	Motor car (3) CO_2 emissions 105g/km	13,000
29 October 2009	Computer	4,400

Leasehold property

On 1 April 2009 Arable Ltd acquired two leasehold office buildings. In each case a premium of £75,000 was paid for the grant of a fifteen-year lease.

The first office building was used for business purposes by Arable Ltd throughout the period ended 31 December 2009.

The second office building was empty until 30 September 2009, and was then sub-let to a tenant. On that date Arable Ltd received a premium of £50,000 for the grant of a five-year lease, and annual rent of £14,800 which was payable in advance.

Loan interest received

Loan interest of £6,000 was received on 30 September 2009, and £3,000 was accrued at 31 December 2009. The loan was made for non-trading purposes.

Dividends received

During the period ended 31 December 2009 Arable Ltd received dividends of £18,000 from Ranch plc, an unconnected UK company. This figure was the actual cash amount received.

Profit on disposal of shares

On 5 December 2009 Arable Ltd sold 10,000 £1 ordinary shares in Ranch plc for £37,457. Arable Ltd had originally purchased 15,000 shares in Ranch plc on 10 June 2007 for £12,000. A further 5,000 shares were purchased on 20 August 2007 for £11,250. The relevant indexation factors are as follows:

June 2007	207.3
August 2007	207.3
December 2009	207.2

Other information

Arable Ltd has two associated companies.

Required

(a) Calculate Arable Ltd's corporation tax liability for the period ended 31 December 2009. **(27 marks)**

(b) State the date by which Arable Ltd's corporation tax return for the period ended 31 December 2009 should be submitted and explain how the company can correct the return if it is subsequently found to contain an error resulting in it paying excessive tax. **(3 marks)**

(Total = 30 marks)

29 Scuba Ltd (Pilot paper) 54 mins

(a) Scuba Ltd is a manufacturer of diving equipment. The following information is relevant for the year ended 31 March 2010:

Operating profit

The operating profit is £170,400. The expenses that have been deducted in calculating this figure include the following:

	£
Depreciation	45,200
Entertaining customers	7,050
Entertaining employees	2,470
Gifts to customers (diaries costing £25 each displaying Scuba Ltd's name)	1,350
Gifts to customers (food hampers costing £80 each)	1,600

Leasehold property

On 1 July 2009 Scuba Ltd acquired a leasehold office building that is used for business purposes. The company paid a premium of £80,000 for the grant of a twenty-year lease.

Purchase of industrial building

Scuba Ltd purchased a new factory from a builder on 1 July 2009 for £240,000, and this was immediately brought into use. The cost was made up as follows:

	£
Drawing office serving the factory	34,000
General offices	40,000
Factory	98,000
Land	68,000
	240,000

Plant and machinery

On 1 April 2009 the tax written down values of plant and machinery were as follows:

	£
Main pool	47,200
Expensive motor car	22,400

The following transactions took place during the year ended 31 March 2010:

		Cost (Proceeds) £
3 April 2009	Purchased machinery	18,020
29 May 2009	Purchased a computer	1,100
4 July 2009	Purchased a motor car CO_2 emissions 135g/km	10,400
18 August 2009	Purchased machinery	7,300
15 November 2009	Sold a lorry	(12,400)

The motor car purchased on 4 July 2009 for £10,400 is used by the factory manager, and 40% of the mileage is for private journeys. The lorry sold on 15 November 2009 for £12,400 originally cost £19,800.

Property income

Scuba Ltd lets a retail shop that is surplus to requirements. The shop was let until 31 March 2009 but was then empty from 1 April 2009 to 31 July 2009. During this period Scuba Ltd spent £6,200 on decorating the shop, and £1,430 on advertising for new tenants. The shop was let from 1 August 2009 to 31 March 2010 at a quarterly rent of £7,200, payable in advance.

Interest received

Interest of £430 was received from HM Revenue & Customs on 31 January 2010 in respect of the overpayment of corporation tax for the year ended 31 March 2009.

Other information

Scuba Ltd has no associated companies, and the company has always had an accounting date of 31 March.

Required

(i) Compute Scuba Ltd's tax adjusted trading profit for the year ended 31 March 2010. You should ignore value added tax (VAT).

Note: Your computation should start with operating profit for the period of £170,400 and should list all of the items in the profit and loss account indicating by the use of a zero (0) any items that do not require adjustment; **(15 marks)**

(ii) Compute Scuba Ltd's corporation tax liability for the year ended 31 March 2010. **(4 marks)**

(b) Scuba Ltd registered for value added tax (VAT) on 1 July 2007. The company's VAT returns have been submitted as follows:

Quarter ended	*VAT paid (refunded)* £	*Submitted*
30 September 2007	18,600	One month late
31 December 2007	32,200	One month late
31 March 2008	8,800	On time
30 June 2008	3,400	Two months late
30 September 2008	(6,500)	One month late
31 December 2008	42,100	On time
31 March 2009	(2,900)	On time
30 June 2009	3,900	On time
30 September 2009	18,800	On time
31 December 2009	57,300	Two months late
31 March 2010	9,600	On time

Scuba Ltd always pays any VAT that is due at the same time that the related return is submitted.

During May 2010 Scuba Ltd discovered that a number of errors had been made when completing its VAT return for the quarter ended 31 March 2010. As a result of these errors the company will have to make an additional payment of VAT to HM Revenue & Customs.

Required

(i) State, giving appropriate reasons, the default surcharge consequences arising from Scuba Ltd's submission of its VAT returns for the quarter ended 30 September 2007 to the quarter ended 31 December 2009 inclusive. **(8 marks)**

(ii) Explain how Scuba Ltd can voluntarily disclose the errors relating to the VAT return for the quarter ended 31 March 2010. You are not required to discuss penalties for errors. **(3 marks)**

(Total = 30 marks)

30 Wireless Ltd (TX 06/08) 50 mins

(a) Wireless Ltd, a United Kingdom resident company, commenced trading on 1 October 2009 as a manufacturer of computer routers. The company prepared its first accounts for the six-month period ended 31 March 2010.

The following information is available:

Trading profit

The tax adjusted trading profit based on the draft accounts for the six-month period ended 31 March 2010 is £76,768. This figure is before making any adjustments required for:

(1) Capital allowances.

(2) Director's remuneration of £23,000 paid to the managing director of Wireless Ltd, together with the related employer's Class 1 national insurance contributions. The remuneration is in respect of the period ended 31 March 2010 but was not paid until 5 April 2010. No accrual has been made for this remuneration in the draft accounts. The managing director received no other remuneration from Wireless Ltd during the tax year 2009/10.

Plant and machinery

Wireless Ltd purchased the following assets in respect of the six-month period ended 31 March 2010:

		£
20 September 2009	Office equipment	3,400
5 October 2009	Machinery	10,200
11 October 2009	Building alterations necessary for the installation of the machinery	4,700
18 February 2010	Motor car CO_2 emissions 148g/km	10,600

The motor car purchased on 18 February 2010 is used by the sales manager, and 15% of the mileage is for private journeys.

Construction of factory

Wireless Ltd had a new factory constructed at a cost of £200,000 that the company brought into use on 1 November 2009. The cost was made up as follows:

	£
Land	60,000
Site preparation	8,000
Canteen for employees	22,000
General offices	42,000
Factory	68,000
	200,000

The factory is used for industrial purposes.

Loan interest received

Loan interest of £1,110 was received on 31 March 2010. The loan was made for non-trading purposes.

Donation

A donation to charity of £1,800 was paid on 20 March 2010. The donation was made under the gift aid scheme.

Required

(i) Explain when an accounting period starts for corporation tax purposes. **(2 marks)**

(ii) Calculate Wireless Ltd's profits chargeable to corporation tax for the six-month period ended 31 March 2010. **(12 marks)**

(b) Note that in answering this part of the question you are not expected to take account of any of the information provided in part (a) above.

Wireless Ltd's sales since the commencement of trading on 1 October 2009 have been as follows:

		£
2009	October	9,700
	November	18,200
	December	21,100
2010	January	14,800
	February	23,300
	March	24,600

The above figures are stated exclusive of value added tax (VAT).

The company's sales are all standard rated and are made to VAT registered businesses.

Wireless Ltd only sells goods and since registering for VAT has been issuing sales invoices to customers that show (1) the invoice date and the tax point, (2) Wireless Ltd's name and address, (3) the VAT-exclusive amount for each supply, (4) the total VAT-exclusive amount and (5) the amount of VAT payable. The company does not offer any discount for prompt payment.

Required

(i) Explain from what date Wireless Ltd was required to compulsorily register for VAT and state what action the company then had to take as regards notifying HM Revenue and Customs (HMRC) of the registration. **(4 marks)**

(ii) Explain the circumstances in which Wireless Ltd would have been allowed to recover input VAT incurred on goods purchased and services incurred prior to the date of VAT registration. **(4 marks)**

(iii) Explain why it would have been beneficial for Wireless Ltd to have voluntarily registered for VAT from 1 October 2009. **(3 marks)**

(iv) State the additional information that Wireless Ltd must show on its sales invoices in order for them to be valid for VAT purposes. **(3 marks)**

(Total = 28 marks)

31 Do-Not-Panic Ltd (TX 06/08) — 18 mins

Do-Not-Panic Ltd is a United Kingdom resident company that installs burglar alarms. The company commenced trading on 1 January 2010 and its results for the fifteen-month period ended 31 March 2011 are summarised as follows:

(1) The trading profit as adjusted for tax purposes is £315,000. This figure is before taking account of capital allowances.

(2) Do-Not-Panic Ltd purchased equipment for £24,000 on 20 February 2010.

(3) On 21 December 2010 Do-Not-Panic Ltd disposed of some investments and this resulted in a capital loss of £4,250. On 28 March 2011 the company made a further disposal and this resulted in a chargeable gain of £42,000.

(4) Franked investment income of £25,000 was received on 22 February 2011.

Do-Not-Panic Ltd has no associated companies.

Required

Calculate Do-Not-Panic Ltd's corporation tax liabilities in respect of the fifteen-month period ended 31 March 2011 and advise the company by when these should be paid.

Assume tax rates for FY 09 continue to apply in FY 10. **(10 marks)**

32 Thai Curry Ltd (BTX 06/06) 50 mins

Thai Curry Ltd is a manufacturer of ready to cook food. The following information is available in respect of the year ended 31 March 2010:

Trading loss

The trading loss is £32,800. This figure is before taking account of capital allowances.

Plant and machinery

On 1 April 2009 the tax written down values of plant and machinery were as follows:

	£
Main pool	10,600
Expensive motor car	16,400
Short-life asset	2,900

The following transactions took place during the year ended 31 March 2010:

		Cost/ (Proceeds) £
1 May 2009	Sold equipment	(12,800)
15 June 2009	Sold the short-life asset	(800)
8 July 2009	Purchased equipment	7,360
14 July 2009	Sold the expensive motor car	(9,700)
26 August 2009	Purchased motor car (1) CO_2 emissions 149g/km	15,800
19 November 2009	Purchased motor car (2) CO_2 emissions 103g/km	9,700
20 March 2010	Purchased a new freehold office building	220,000

The equipment sold on 1 May 2009 for £12,800 originally cost £27,400.

The cost of the new freehold office building purchased on 20 March 2010 included £8,500 for the central heating system, £7,200 for sprinkler equipment and the fire alarm system and £7,050 for the ventilation system.

Industrial building

On 1 May 2009 Thai Curry Ltd purchased a new factory for £360,000 (including £70,000 for the cost of land).

Income from property

Thai Curry Ltd lets out two warehouses that are surplus to requirements.

The first warehouse was let from 1 April 2009 until 30 November 2009 at a monthly rent of £2,200. On that date the tenant left owing two months rent which Thai Curry Ltd was not able to recover. During February 2010 £8,800 was spent on painting the warehouse. The warehouse was not re-let until 1 April 2010.

The second warehouse was empty from 1 April 2009 until 31 July 2009, but was let from 1 August 2009. On that date Thai Curry Ltd received a premium of £60,000 for the grant of a four-year lease, and the annual rent of £18,000 which is payable in advance.

Loan interest received

Loan interest of £8,000 was received on 30 September 2009 and £3,500 was accrued at 31 March 2010. The loan was made for non-trading purposes.

Dividends received

During the year ended 31 March 2010 Thai Curry Ltd received dividends of £36,000 from African Spice plc, an unconnected UK company. This figure was the actual cash amount received.

Profit on disposal of shares

On 28 July 2009 Thai Curry Ltd sold 10,000 £1 ordinary shares in African Spice plc, making a capital gain of £152,300 on the disposal.

Other information

Thai Curry Ltd has three associated companies.

Required

(a) Calculate Thai Curry Ltd's tax adjusted trading loss for the year ended 31 March 2010. You should assume that the company claims the maximum available capital allowances. **(11 marks)**

(b) Assuming that Thai Curry Ltd claims relief for its trading loss against total profits against total profits, calculate the company's corporation tax liability for the year ended 31 March 2010. **(11 marks)**

(c) (i) State the date by which Thai Curry Ltd's self-assessment corporation tax return for the year ended 31 March 2010 should be submitted, and advise the company of the penalties that will be due if the return is not submitted until 30 November 2011. **(3 marks)**

(ii) State the date by which Thai Curry Ltd's corporation tax liability for the year ended 31 March 2010 should be paid, and advise the company of the interest that will be due if the liability is not paid until 30 November 2011. **(3 marks)**

(Total = 28 marks)

33 Cube Ltd (BTX 06/06) 36 mins

Cube Ltd sold the following shareholdings during the year ended 31 March 2010:

(a) On 10 May 2009 4,000 50 pence ordinary shares in Parallel plc were sold for £46,500. Cube Ltd had purchased 22,000 shares in Parallel plc on 1 November 2002 for £101,200. The retail prices index (RPI) for November 2002 was 178.2, and for May 2009 it was 210.3.

(b) On 31 July 2009 10,000 £1 ordinary shares in Rectangle plc were sold for £38,000. Cube Ltd had originally purchased 15,000 shares in Quadrangle plc on 1 July 2009 for £96,000. On 15 July 2009 Quadrangle plc was taken over by Rectangle plc. Cube Ltd received one £1 ordinary share and one £1 preference share in Rectangle plc for each £1 ordinary share held in Quadrangle plc. Immediately after the takeover each £1 ordinary share in Rectangle plc was quoted at £4·50 and each £1 preference share was quoted at £1·50.

(c) On 12 August 2009 a thoroughbred racehorse was sold for £35,000. Cube Ltd had purchased the horse on 5 July 2005 for £26,000.

(d) On 31 October 2009 8,000 £1 ordinary shares in Square plc were sold for £26,850. Cube Ltd had purchased 12,000 shares in Square plc on 1 October 2009 for £60,000. On 16 October 2009 Square plc made a 1 for 3 bonus issue.

(e) On 24 January 2010 an office, used in the business, was sold for £335,760. Cube Ltd had originally purchased the office on 1 April 2001 for £126,000. Cube Ltd had acquired another office on 1 September 2009 for £340,000. The retail prices index (RPI) for April 2001 was 173.1, and for January 2010 it was 206.8.

(f) On 31 March 2010 12,000 £1 ordinary shares in Triangle plc were sold for £57,800. Cube Ltd had purchased 8,000 shares in Triangle plc on 1 March 2010 for £28,800. On 15 March 2010 Triangle plc made a 1 for 1 rights issue. Cube Ltd took up its allocation under the rights issue in full, paying £3.20 for each new share issued.

Cube Ltd's only other income for the year ended 31 March 2010 was a trading profit of £90,000. There are no associated companies.

Required

Calculate Cube Ltd's corporation tax liability for the year ended 31 March 2010 assuming all available reliefs are claimed. **(20 marks)**

34 Hawk Ltd (TX 12/08) — 36 mins

Hawk Ltd sold the following assets during the year ended 31 March 2010:

(1) On 30 April 2009 a freehold office building was sold for £260,000. The office building had been purchased on 2 July 1992 for £81,000, and had been extended at a cost of £43,000 during May 2004. Hawk Ltd incurred legal fees of £3,200 in connection with the purchase of the office building, and legal fees of £5,726 in connection with the disposal. The office building has always been used by Hawk Ltd for business purposes. The relevant retail prices indexes (RPIs) are as follows:

July 1992	138.8
May 2004	186.5
April 2009	210.8

(2) On 29 August 2009 5,000 £1 ordinary shares in Albatross plc were sold for £42,500. Hawk Ltd had purchased 6,000 shares in Albatross plc on 1 August 2009 for £18,600, and purchased a further 2,000 shares on 17 August 2009 for £9,400.

(3) On 27 October 2009 10,000 £1 preference shares in Cuckoo plc were sold for £32,000. Hawk Ltd had originally purchased 5,000 £1 ordinary shares in Cuckoo plc on 2 October 2009 for £60,000. On 18 October 2009 Cuckoo plc had a reorganisation whereby each £1 ordinary share was exchanged for three new £1 ordinary shares and two £1 preference shares. Immediately after the reorganisation each new £1 ordinary share was quoted at £4.50 and each £1 preference share was quoted at £2.25.

(4) On 28 March 2010 two acres of land were sold for £120,000. Hawk Ltd had originally purchased three acres of land on 1 March 2010 for £203,500. The market value of the unsold acre of land as at 28 March 2010 was £65,000. The land has never been used by Hawk Ltd for business purposes.

Hawk Ltd's only other income for the year ended 31 March 2010 was a trading profit of £125,000.

Hawk Ltd does not have any associated companies.

Required

(a) Calculate Hawk Ltd's corporation tax liability for the year ended 31 March 2010. **(16 marks)**

(b) Advise Hawk Ltd of:

(i) The minimum amount that will have to be reinvested in qualifying replacement business assets in order for the company to claim the maximum possible amount of rollover relief in respect of its chargeable gains for the year ended 31 March 2010. **(2 marks)**

(ii) The period during which the reinvestment must take place. **(1 mark)**

(iii) The amount of corporation tax that will be deferred if the maximum possible amount of rollover relief is claimed for the year ended 31 March 2010. **(1 mark)**

(Total = 20 marks)

35 Spacious Ltd (BTX 12/03) 54 mins

Spacious Ltd is a UK resident company that commenced trading on 1 July 2008 as a manufacturer of engineering equipment. The company's summarised profit and loss account for the year ended 31 March 2010 is as follows:

	£	£
Gross profit		101,180
Operating expenses		
Depreciation	54,690	
Patent royalties (note 1)	9,400	
Professional fees (note 2)	22,500	
Repairs and renewals (note 3)	27,700	
Other expenses (note 4)	149,490	
		(263,780)
Operating loss		(162,600)
Profit from sale of fixed assets		
Disposal of office building (note 5)		54,400
Income from investments		
Bank interest (note 6)		7,000
		(101,200)
Interest payable (note 7)		(23,000)
Loss before taxation		(124,200)

Notes

(1) *Patent royalties*

Patent royalties of £3,900 were paid on 30 September 2009, with a further £5,500 being paid on 31 March 2010. These relate to the year ended 31 March 2010.

(2) *Professional fees*

Professional fees are as follows:

	£
Accountancy and audit fee	3,600
Legal fees in connection with the issue of share capital	8,800
Legal fees in connection with the issue of debentures (see note 7)	6,900
Legal fees in connection with the defence of the company's internet domain name	2,300
Legal fees in connection with a court action for not complying with health and safety legislation	900
	22,500

(3) *Repairs and renewals*

The figure of £27,700 for repairs includes £9,700 for constructing a new wall around the company's premises and £5,400 for replacing the roof of a warehouse because it was in a bad state of repair.

(4) *Other expenses*

Other expenses include £4,215 for entertaining customers, £600 for entertaining employees and a donation of £1,000 made to a national charity under the Gift Aid scheme.

(5) *Disposal of office building*

The profit of £54,400 is in respect of a freehold office building that was sold on 30 June 2009 for £380,000. The indexed cost of the building on 30 June 2009 was £345,400. The building has always been used by Spacious Ltd for trading purposes. The company has claimed to rollover the gain arising on the office building against the cost of a new factory that was purchased on 1 July 2009 for £360,000 (see note 8). The new factory is used 100% for trading purposes by Spacious Ltd.

(6) *Bank interest received*

The bank interest was received on 31 March 2010. The bank deposits are held for non-trading purposes.

(7) *Interest payable*

Spacious Ltd raised a debenture loan on 1 October 2009, and this was used for trading purposes. Interest of £23,000 in respect of the first six months of the loan was paid on 31 March 2010.

(8) *Industrial building*

Spacious Ltd purchased a new factory from a builder on 1 July 2009 for £360,000 and this was immediately brought into use. The figure of £360,000 includes £135,000 for land, £61,500 for general offices and £54,000 for a drawing office.

(9) *Long-life asset*

On 1 September 2009 Spacious Ltd installed a new overhead crane costing £110,000 in the new factory. The crane is a long-life asset.

(10) *Plant and machinery*

On 1 April 2009 the tax written down values of plant and machinery were as follows:

	£
Main pool	28,400
Expensive motor car	14,800

The following transactions took place during the year ended 31 March 2010:

		Cost/(Proceeds)
		£
10 April 2009	Purchased equipment	30,200
5 February 2010	Sold the expensive motor car	(9,800)
5 February 2010	Purchased a motor car CO_2 emissions 175g/km	27,200
20 March 2010	Sold a lorry	(17,600)
31 March 2010	Purchased a motor car CO_2 emissions 133g/km	9,400

The lorry sold on 20 March 2010 for £17,600 originally cost £18,200. The motor car purchased on 31 March 2010 for £9,400 is used by the sales manager, and 20% of the mileage is for private journeys.

(11) *Other information*

Spacious Ltd has no associated companies.

The company's results for the nine-month period ended 31 March 2009 were as follows:

	£
Trading income profit	218,200
Interest income profit	5,200
Capital loss	(4,900)
Gift aid donation	(800)

Spacious Ltd's profits chargeable to corporation tax for the year ended 31 March 2011 are expected to be £495,000, of which £450,000 represents trading income profit.

Required

(a) Calculate Spacious Ltd's trading loss for the year ended 31 March 2010. Your answer should commence with the loss before taxation figure of £124,200 and should list all of the items in the profit and loss account indicating by the use of a zero (0) any items that do not require adjustment. You should assume that the company claims the maximum available capital allowances. **(19 marks)**

(b) Assuming that Spacious Ltd claims relief for its trading loss against total profits, calculate the company's profits chargeable to corporation tax for the nine-month period ended 31 March 2009 and the year ended 31 March 2010. **(8 marks)**

(c) Explain why it would probably have been beneficial for Spacious Ltd to have carried its trading loss forward, rather than making the claim against total profits. **(3 marks)**

(Total = 30 marks)

36 Adamson Ltd **18 mins**

Adamson Ltd's recent results are as follows:

	Year ended 31 March 2007	*Year ended 31 March 2008*	*Year ended 31 March 2009*	*Year ended 31 March 2010*
	£	£	£	£
Trading profit/(loss)	86,600	(5,700)	27,300	(98,300)
Property business profit	–	4,500	8,100	5,600
Gift aid donations	(1,400)	(800)	(1,200)	(1,100)

Adamson Ltd does not have any associated companies.

Required

(a) State the factors that will influence a company's choice of loss relief claims. You are not expected to consider group relief. **(3 marks)**

(b) Assuming that Adamson Ltd claims relief for its losses as early as possible, compute the company's profits chargeable to corporation tax for all relevant years. Your answer should clearly identify the amount of any losses that are unrelieved at 31 March 2010. **(5 marks)**

(c) Explain how your answer to (b) above would have differed if Adamson Ltd had ceased trading on 31 March 2010. **(2 marks)**

(Total = 10 marks)

37 Jogger Limited (TX 12/08) **54 mins**

(a) Jogger Ltd is a manufacturer of running shoes. The company's summarised profit and loss account for the year ended 31 March 2010 is as follows:

	Note	£	£
Operating loss	1		(9,140)
Income from investments			
Bank interest	4	8,460	
Loan interest	5	24,600	
Income from property	6	144,000	
Dividends	7	45,000	
			222,060
Profit from sale of fixed assets			
Disposal of shares	8		102,340
Profit before taxation			315,260

Note 1 – Operating profit

Depreciation of £12,340 has been deducted in arriving at the operating loss of £9,140.

Note 2 – Plant and machinery

On 1 April 2009 the tax written down values of plant and machinery were as follows:

	£
Main Pool	21,600
Expensive motor car	8,800

The following transactions took place during the year ended 31 March 2010:

		Cost/(proceeds) £
20 July 2009	Sold the expensive motor car	(11,700)
31 July 2009	Purchased motor car CO_2 emissions 135g/km	11,800
30 September 2009	Purchased machinery	55,000
14 March 2010	Sold a lorry	(8,600)

The expensive motor car sold on 20 July 2009 for £11,700 originally cost £18,400. The lorry sold on 14 March 2010 for £8,600 originally cost £16,600.

Note 3 – Industrial building

On 1 April 2009 Jogger Ltd purchased a new factory for £250,000 (excluding the cost of land). It brought the factory into industrial use immediately.

Note 4 – Bank interest received

The bank interest was received on 31 March 2010. The bank deposits are held for non-trading purposes.

Note 5 – Loan interest receivable

The loan was made for non-trading purposes on 1 July 2009. Loan interest of £16,400 was received on 31 December 2009, and interest of £8,200 was accrued at 31 March 2010.

Note 6 – Income from property

Jogger Ltd lets out an unfurnished freehold office building that is surplus to requirements. The office building was let throughout the year ended 31 March 2010. On 1 April 2009 Jogger Ltd received a premium of £100,000 for the grant of a ten-year lease, and the annual rent of £44,000 which is payable in advance.

Note 7 – Dividends received

During the year ended 31 March 2010 Jogger Ltd received dividends of £45,000 from Sprinter plc, an unconnected UK company. This figure was the actual cash amount received.

Note 8 – Profit on disposal of shares

The profit on disposal of shares is in respect of a shareholding that was sold on 5 December 2009. The disposal resulted in a chargeable gain of £98,300. This figure is after taking account of indexation.

Note 9 – Other information

Jogger Ltd has two associated companies.

Required

(i) Calculate Jogger Ltd's tax adjusted trading loss for the year ended 31 March 2010.

Notes: (1) Your computation should start with the operating loss of £(9,140).

(2) You should assume that the company claims the maximum available capital allowances.

(7 marks)

(ii) Assuming that Jogger Ltd claims relief for its trading loss against total profits, calculate the company's corporation tax liability for the year ended 31 March 2010. **(8 marks)**

(iii) State the date by which Jogger Ltd's self-assessment corporation tax return for the year ended 31 March 2010 should be submitted, and advise the company of the penalties that will be due if the return is submitted eight months late.

Note: you should assume that the company pays its corporation tax liability at the same time that the self-assessment tax return is submitted. **(4 marks)**

(b) Note: in answering this part of the question you are not expected to take account of any of the information provided in part (a) above.

Jogger Ltd has been registered for value added tax (VAT) since 1 April 2003. From that date until 30 June 2008 the company's VAT returns were all submitted on time. Since 1 July 2008 the company's VAT returns have been submitted as follows:

Quarter ended	*VAT paid*	*Submitted*
	£	
30 September 2008	42,700	One month late
31 December 2008	41,200	On time
31 March 2009	38,900	One month late
30 June 2009	28,300	On time
30 September 2009	49,100	On time
31 December 2009	63,800	On time
31 March 2010	89,100	Two months late

Jogger Ltd always pays any VAT that is due at the same time as the related return is submitted.

Required

(i) State, giving appropriate reasons, the default surcharge consequences arising from Jogger Ltd's submission of its VAT returns for the quarter ended 30 September 2008 to the quarter ended 31 March 2010 inclusive, at the times stated. **(6 marks)**

(ii) Advise Jogger Ltd why it might be beneficial to use the VAT annual accounting scheme, and state the conditions that it will have to satisfy before being permitted to do so. **(5 marks)**

(Total = 30 marks)

38 B and W Ltd — 27 mins

B Ltd acquired 80% of the voting rights of W Ltd in December 2009. Both companies are resident in the United Kingdom. B Ltd also has an overseas permanent establishment (branch), which is subject to overseas tax at 20%.

The following information relates to B Ltd for its twelve-month accounting period ended 31 March 2010.

	£
Income	
Adjusted trading profits	296,000
Capital gains	30,000
Branch profits, net of tax	1,600
Debenture interest received 30 November 2009 (non-trading investment)	8,000
FII (inclusive of tax credit) received in May 2009	32,000
Payments	
Gift Aid to charity	18,000

W Ltd also made up accounts for the twelve months to 31 March 2010 and its only taxable income consisted of trading profits of £6,000.

There were no accruals of debenture interest at the beginning or end of the year. The debenture interest was received gross from another UK company.

Required

Compute the corporation tax payable by both B Ltd and W Ltd for the above accounting period, assuming all appropriate claims are made.

Show clearly your treatment of double tax relief. **(15 marks)**

39 Sirius Ltd (BTX 12/03) 43 mins

Sirius Ltd is a manufacturing company with no associated companies. The profit and loss account for the year ended 31 March 2010 show a trading loss of £125,000. This figure includes the following items:

	£
Director's fees	47,000
Depreciation	42,750
Loss on disposal of computer equipment	5,260
Loss on sale of factory	39,500
Bank overdraft interest charged	10,000
Gift Aid donation to Oxfam paid on 15 November 2009	25,000
Dividend paid on 27 January 2010	21,000
Dividend received on 15 March 2010	18,000

Notes

(1) The written down values of plant and equipment at 1 April 2009 were as follows.

	£
Plant and machinery	42,000
Expensive car	13,000
Short life asset (computer system)	3,600

On 1 June 2009 a new computer system was purchased for £12,000. The existing system, which had cost £9,600 three years earlier, was sold for £250.

On 5 November 2009 a new van was purchased at a cost of £21,680 for the sole use of the transport manager, whose mileage was 75% business and 25% private.

(2) In July 2009 a freehold factory was sold for £1,750,000. It had been acquired in September 1999 for £85,000. As at 1 April 2009 the company had capital losses brought forward of £41,405.

(3) The profits chargeable to corporation tax for the year ended 31 March 2009 were £3 million, and the budgeted figure for the year ended 31 March 2011 is £105,000.

Future plans

Sirius is planning to set up an overseas operation next year, but is unsure whether to operate overseas through a permanent establishment or a 100% subsidiary. A subsidiary would be resident overseas. Regardless of the type of business structure chosen, the overseas operation is expected to make a tax adjusted trading profit of £200,000 for the year ended 31 March 2011. The overseas corporation tax on these profits will be £40,000.

If the overseas operation is set up as a permanent establishment then profits of £80,000 will be remitted to the UK during the year ended 31 March 2011. These remittances will not be subject to any withholding tax. If the overseas operation is set up as a 100% subsidiary then gross dividends of £80,000 will be paid to Sirius Ltd during the year ended 31 March 2011. These dividends will be subject to withholding tax at the rate of 15% in the overseas country.

All of the above figures are in pounds Sterling.

Required

(a) (i) Calculate the corporation tax due for the year ended 31 March 2010 assuming that the trading loss is set off so as to obtain relief as early as possible. The RPI for September 1999 is 166.2 and in July 2009 is 209.3. **(10 marks)**

(ii) State when the corporation tax payment is due and when the company's tax return must be submitted. **(2 marks)**

(iii) State any alternative ways in which the company may set off its trading loss for the year ended 31 March 2010, ignoring any profit from overseas sources in the future. **(3 marks)**

(b) Explain the taxation factors that should be considered when deciding whether to operate overseas through a permanent establishment or a 100% subsidiary. You are not expected to discuss double taxation relief. **(5 marks)**

(c) Calculate Sirius Ltd's UK corporation tax liability for the year ended 31 March 2011 if the overseas operation is set up as a permanent establishment. **(4 marks)**

You should assume that Sirius Ltd has no other income or expenditure in the year and that the FY2009 corporation tax rates continue to apply in the future.

(Total = 24 marks)

40 A Ltd **27 mins**

On 1 July 2009 A Ltd, a manufacturing company resident in the United Kingdom, acquired 100% of the share capital of B Ltd, also a manufacturing company. B Ltd makes up accounts each year to 30 June. For its year ended 30 June 2010, it sustained a trading loss of £68,000 and had no other chargeable income. A Ltd produced the following information in relation to its nine-month period of accounts to 31 December 2009.

INCOME	
	£
Trading income	342,000
Rents receivable	13,000
Loan interest receivable (received gross) (including £2,000 accrued at 31 December 2009)	8,000
Bank interest receivable (including £3,000 accrued at 31 December 2009: £2,000 received 30 June 2009)	5,000
Franked investment income (FII) (including tax credit; received August 2009)	1,000
PAYMENTS	
Gift Aid payment (paid September 2009)	17,000

A Ltd did not pay an dividends to individual shareholders in the above accounting period.

Required

Compute the final taxation position of A Ltd for the above accounting period, assuming maximum group relief is claimed by A Ltd in respect of B Ltd's trading loss.

State the due date for payment of the corporation tax and the date by which A Ltd must file a corporation tax return in respect of the above period. **(15 marks)**

41 Gold Ltd (BTX 06/04) **54 mins**

Gold Ltd owns 100% of the ordinary share capital of Silver Ltd. Gold Ltd has an accounting date of 31 December, whilst Silver Ltd has an accounting date of 30 June. The results of Gold Ltd are as follows:

	Year ended 31 December	
	2009	*2010*
	£	£
Trading income	177,000	90,000
Property business income	5,000	–
Capital gain	–	12,000
Gift Aid donation	(2,000)	(2,000)

For the year ended 30 June 2009 Silver Ltd had profits chargeable to corporation tax of £260,000. Information for the year ended 30 June 2010 is as follows.

	£
Operating loss (note 1)	(167,464)
Income from investments	
Dividends (note 2)	116,514
Loss before taxation	(50,950)

Notes

(1) *Operating loss*

Depreciation of £36,632 has been deducted in arriving at the operating loss of £167,464.

(2) *Dividends received*

The dividends were all received from unconnected UK companies. The figure shown is the actual cash amount received.

(3) *Plant and machinery*

On 1 July 2009 the tax written down values of plant and machinery were as follows:

	£
Main pool	29,850
Expensive motor car (1)	11,750
Short-life asset	2,700

The following transactions took place during the year ended 30 June 2010:

		Cost/ (proceeds) £
1 July 2009	Purchased equipment	3,360
5 July 2009	Sold the expensive motor car (1)	(18,700)
31 August 2009	Purchased motor car (2) CO_2 emissions 180g/km	23,250
7 October 2009	Sold a van	(12,220)
12 November 2009	Purchased motor car (3) CO_2 emissions 135g/km	9,500
16 April 2010	Sold the short-life asset	(555)

The expensive motor car sold on 5 July 2009 originally cost £31,240. The van sold on 7 October 2009 originally cost £11,750.

(4) *Industrial building*

On 1 June 2010 Silver Ltd purchased a factory for £295,000 (including £85,000 for the land and £62,750 for general offices). The factory was brought into industrial use immediately.

No information is available regarding the year ended 30 June 2011.

Gold Ltd has no other associated companies.

Required

(a) Calculate Silver Ltd's trade loss for the year ended 30 June 2010. **(15 marks)**

(b) Assuming that the maximum possible claim for group relief is made in respect of Silver Ltd's trading loss, calculate Gold Ltd's corporation tax liabilities for the year ended 31 December 2009 and the year ended 31 December 2010. **(8 marks)**

(c) Explain how loss relief should be allocated within a group of companies in order to maximise the potential benefit of the relief for the group as a whole. **(4 marks)**

(d) Based on the information available, advise Silver Ltd of the most beneficial way of relieving its trading loss. **(3 marks)**

Assume that the tax rates and allowances for FY 2009 also apply in later years.

(Total = 30 marks)

42 Apple Ltd

36 mins

You should assume that today's date is 30 November 2010.

Apple Ltd has owned 80% of the ordinary share capital of Bramley Ltd and 85% of the ordinary share capital of Cox Ltd since these two companies were incorporated on 1 April 2008. Cox Ltd acquired 80% of the ordinary share capital of Delicious Ltd on 1 April 2009, the date of its incorporation.

The tax adjusted trading profits/(losses) of each company for the years 31 March 2009, 2010 and 2011 are as follows.

	Year ended 31 March		
	2009	*2010*	*2011 (forecast)*
	£	£	£
Apple Ltd	620,000	250,000	585,000
Bramley Ltd	(64,000)	52,000	70,000
Cox Ltd	83,000	(58,000)	40,000
Delicious Ltd	n/a	90,000	(15,000)

The following information is also available.

(1) Apple Ltd sold a freehold office building on 10 March 2010 for £380,000, and this resulted in a capital gain of £120,000.

(2) Apple Ltd sold a freehold warehouse on 5 October 2010 for £365,000, and this resulted in a capital gain of £80,000.

(3) Cox Ltd purchased a freehold factory on 20 September 2010 for £360,000.

(4) Delicious Ltd is planning to sell a leasehold factory building on 15 February 2011 for £180,000, and this will result in a capital loss of £44,000.

Because each of the subsidiary companies has minority shareholders, the managing director of Apple Ltd has proposed that:

(1) Trading losses should initially be carried back and relieved against profits of the loss making company, with any unrelieved amount then being carried forward.

(2) Chargeable gains and allowable losses should not be transferred between group companie, and rollover relief should only be claimed where reinvestment is made by the company that incurred the chargeable gain.

Required

(a) (i) Explain the factors that should be taken into account by the Apple Ltd group when deciding which group companies the trading losses should be surrendered to. **(2 marks)**

(ii) Explain why it may be beneficial to elect to transfer chargeable gains or allowable losses of eligible subsidiary companies to Apple Ltd.

(2 marks)

(b) (i) Assuming that the managing director's proposals are followed, calculate the profits chargeable to corporation tax for each of the companies in the Apple Ltd group for the years ended 31 March 2009, 2010 and 2011 respectively. **(5 marks)**

(ii) Advise the Apple Ltd group of the amount of corporation tax that could be saved for the years ended 31 March 2009, 2010 and 2011 if reliefs were instead claimed in the most beneficial manner. **(11 marks)**

Assume that Financial Year 2009 rates apply throughout.

(Total = 20 marks)

43 Tock-Tick Ltd (BTX 06/05) 54 mins

Tock-Tick Ltd is a clock manufacturer. The company's summarised profit and loss account for the year ended 31 March 2010 is as follows:

	£	£
Gross profit		825,020
Operating expenses		
Impairment losses (note 1)	9,390	
Depreciation	99,890	
Gifts and donations (note 2)	3,090	
Professional fees (note 3)	12,400	
Repairs and renewals (note 4)	128,200	
Other expenses (note 5)	426,920	
		(679,890)
Operating profit		145,130
Profit from sale of fixed assets		
Disposal of office building (note 6)		78,100
Income from investments		
Loan interest (note 7)		12,330
		235,560
Interest payable (note 8)		(48,600)
Profit before taxation		186,960

Notes

(1) *Impairment losses*

Impairment losses are as follows:

	£
Trade debts recovered from previous years	(1,680)
Trade debts written off	4,870
Non-trade debts written off	6,200
	9,390

(2) *Gifts and donations*

Gifts and donations are as follows:

	£
Gifts to customers (pens costing £45 each displaying Tock-Tick Ltd's name)	1,080
Gifts to customers (food hampers costing £30 each)	720
Long service award to an employee	360
Donation to a national charity (made under the gift aid scheme)	600
Donation to a national charity (not made under the gift aid scheme)	250
Donation to a local charity (Tock-Tick Ltd received free advertising in the charity's magazine)	80
	3,090

(3) *Professional fees*

Professional fees are as follows:

	£
Accountancy and audit fee	5,400
Legal fees in connection with the issue of share capital	2,900
The cost of registering the company's trademark	800
Legal fees in connection with the renewal of a 35-year property lease	1,300
Debt collection	1,100
Legal fees in connection with a court action for not complying with health and safety legislation	900
	12,400

(4) *Repairs and renewals*

The figure of £128,200 for repairs and renewals includes £41,800 for replacing the roof of an office building, which was in a bad state of repair, and £53,300 for extending the office building.

(5) *Other expenses*

Other expenses include £2,160 for entertaining suppliers; £880 for counseling services provided to two employees who were made redundant; and the cost of seconding an employee to a charity of £6,400. The remaining expenses are all fully allowable.

(6) *Disposal of office building*

The profit of £78,100 is in respect of a freehold office building that was sold on 20 February 2010 for £276,000. The office building was purchased on 18 November 1999 for £197,900. The indexation allowance from November 1999 to February 2010 is £47,298.

The building has always been used by Tock-Tick Ltd for trading purposes.

(7) *Loan interest received*

The loan interest is in respect of a loan that was made on 1 July 2009. Interest of £8,280 was received on 31 December 2009, and interest of £4,050 was accrued at 31 March 2010. The loan was made for non-trading purposes.

(8) *Interest payable*

The interest payable is in respect of a debenture loan that is used for trading purposes. Interest of £24,300 was paid on 30 September 2009 and again on 31 March 2010.

(9) *Plant and machinery*

On 1 April 2009 the tax written down values of plant and machinery were as follows:

	£
Main pool	12,200
Expensive motor car	20,800
Short-life asset	3,100

The following transactions took place during the year ended 31 March 2010:

		Cost/(Proceeds)
		£
28 May 2009	Sold the expensive motor car	(34,800)
7 June 2009	Purchased a motor car	14,400
1 August 2009	Sold the short-life asset	(460)
15 August 2009	Purchased equipment	6,700

The expensive motor car sold on 28 May 2009 for £34,800 originally cost £33,600. The motor car purchased on 7 June 2009 has CO_2 emission rate of 105 grams per kilometre .

Required

(a) Calculate Tock-Tick Ltd's tax adjusted trading income for the year ended 31 March 2010. Your computation should commence with the profit before taxation figure of £186,960 and should list all of the items in the profit and loss account indicating by the use of a zero (0) any items that do not require adjustment.

(19 marks)

(b) Calculate Tock-Tick Ltd's profits chargeable to corporation tax for the year ended 31 March 2010. **(5 marks)**

(c) State the effect on Tock-Tick Ltd's profits chargeable to corporation tax for the year ended 31 March 2010 if Tock-Tick Ltd had:

(i) Claimed the maximum possible group relief from a 100% owned subsidiary company that had made a trading loss of £62,400 for the year ended 31 December 2009; **(3 marks)**

(ii) Made a claim to rollover the gain arising on the sale of the office building (see note 6) against the cost of a new freehold office building that was purchased on 15 April 2010 for £260,000. The new office building is to be used 100% for trading purposes by Tock-Tick Ltd. **(3 marks)**

(Total = 30 marks)

44 Sofa Ltd (TX 12/07) 45 mins

(a) Sofa Ltd is a manufacturer of furniture. The company's summarised profit and loss account for the year ended 31 March 2010 is as follows:

	£	£
Gross profit		299,500
Operating expenses		
Depreciation	87,100	
Professional fees (note 1)	19,900	
Repairs and renewals (note 2)	22,800	
Other expenses (note 3)	364,000	(493,800)
Operating loss		(194,300)
Profit from sale of fixed assets		
Disposal of shares (note 4)		4,300
Income from investments		
Bank interest (note 5)		8,400
		(181,600)
Interest payable (note 6)		(31,200)
Loss before taxation		(212,800)

Notes

1. *Professional fees*

   Professional fees are as follows:

	£
Accountancy and audit fee	3,400
Legal fees in connection with the issue of share capital	7,800
Legal fees in connection with the renewal of a ten year property lease	2,900
Legal fees in connection with the issue of debentures (see note 6)	5,800
	19,900

2. *Repairs and renewals*

   The figure of £22,800 for repairs and renewals includes £9,700 for constructing a new wall around the company's premises and £3,900 for repairing the wall of an office building after it was damaged by a lorry. The remaining expenses are all fully allowable.

3. *Other expenses*

   The figure of £364,000 for other expenses includes £1,360 for entertaining suppliers; £700 for entertaining employees; £370 for counselling services provided to an employee who was made redundant; and a fine of £420 for infringing health and safety regulations. The remaining expenses are all fully allowable.

4. *Profit on disposal of shares*

   The profit on the disposal of shares of £4,300 is in respect of a shareholding that was sold on 29 October 2009.

5. *Bank interest received*

   The bank interest was received on 31 March 2010. The bank deposits are held for non-trading purposes.

6. *Interest payable*

   Sofa Ltd raised a debenture loan on 1 July 2009, and this was used for trading purposes. Interest of £20,800 was paid on 31 December 2009, and £10,400 was accrued at 31 March 2010.

7. *Plant and machinery*

On 1 April 2009 the tax written down values of plant and machinery were as follows:

	£
Main pool	27,800
Expensive motor car	16,400

The following transactions took place during the year ended 31 March 2010:

		Cost/proceeds
		£
12 May 2009	Purchased equipment	1,400
8 June 2009	Sold the expensive motor car	(17,800)
8 June 2009	Purchased motor car (1) CO_2 emissions 175g/km	22,200
2 August 2009	Purchased motor car (2) CO_2 emissions 125 g/km	10,900
19 October 2009	Purchased motor car (3) CO_2 emissions 105 g/km	13,800
8 January 2010	Sold a lorry	(7,600)
18 January 2010	Sold motor car (2)	(8,800)
10 February 2010	Purchased a second-hand freehold office building	280,000

The expensive motor car sold on 8 June 2009 for £17,800 originally cost £26,800. The lorry sold on 8 January 2010 for £7,600 originally cost £24,400.

The cost of the second-hand office building purchased on 10 February 2010 for £280,000 includes fixtures qualifying as plant and machinery (but not as integral features). These fixtures originally cost £44,800, and at the date of sale had a market value of £12,600 and a written down value of £9,400. Sofa Ltd and the vendor of the office building have made a joint election regarding the sale price of the fixtures to enable Sofa Ltd to claim the maximum possible amount of capital allowances in respect of them.

8. *Purchase of factory*

On 1 July 2009 Sofa Ltd purchased a new factory. The factory was constructed at a cost of £558,000 (including £158,000 for the land and £68,000 for a showroom). It was brought into use on 1 July 2009.

Required

Calculate Sofa Ltd's tax adjusted trading loss for the year ended 31 March 2010. Your answer should commence with the loss before taxation figure of £212,800 and should list all of the items in the profit and loss account indicating by the use of a zero (0) any items that do not require adjustment. You should assume that the company claims the maximum available capital allowances. **(20 marks)**

(b) Sofa Ltd has three subsidiary companies:

Settee Ltd

Sofa Ltd owns 100% of the ordinary share capital of Settee Ltd. For the year ended 30 June 2009 Settee Ltd had profits chargeable to corporation tax of £240,000, and for the year ended 30 June 2010 will have profits chargeable to corporation tax of £90,000.

Couch Ltd

Sofa Ltd owns 60% of the ordinary share capital of Couch Ltd. For the year ended 31 March 2010 Couch Ltd had profits chargeable to corporation tax of £64,000.

Futon Ltd

Sofa Ltd owns 80% of the ordinary share capital of Futon Ltd. Futon Ltd commenced trading on 1 January 2010, and for the three-month period ended 31 March 2010 had profits chargeable to corporation tax of £60,000.

Required

Advise Sofa Ltd as to the maximum amount of group relief that can potentially be claimed by each of its three subsidiary companies in respect of its trading loss for the year ended 31 March 2010.

(5 marks)

(Total = 25 marks)

45 Gastron Ltd (TX 06/09) **54 mins**

Gastron Ltd, a United Kingdom resident company, is a luxury food manufacturer. The company's summarised profit and loss account for the year ended 31 March 2010 is as follows:

	Note	£	£
Gross profit			866,660
Operating expenses			
Depreciation		85,660	
Amortisation of leasehold property	1	6,000	
Gifts and donations	2	2,700	
Professional fees	3	18,800	
Other expenses	4	230,240	
			(333,560)
Operating profit			533,100
Income from investments			
Income from property	5	20,600	
Bank interest	6	12,400	
Dividends	7	54,000	
			87,000
Profit from sale of fixed assets			
Disposal of shares	8		80,700
			700,800
Interest payable	9		(60,800)
Profit before taxation			640,000

Note 1 – Leasehold property

On 1 April 2009 Gastron Ltd acquired a leasehold office building, paying a premium of £60,000 for the grant of a new ten-year lease. The office building was used for business purposes by Gastron Ltd throughout the year ended 31 March 2010. No legal costs were incurred by Gastron Ltd in respect of this lease.

Note 2 – Gifts and donations

Gifts and donations are as follows:

	£
Gifts to customers (pens costing £60 each and displaying Gastron Ltd's name)	1,200
Gifts to customers (hampers of food costing £25 each)	1,100
Donation to local charity (Gastron Ltd received free advertising in the charity's magazine)	400
	2,700

Note 3 – Professional fees

Professional fees are as follows:

	£
Legal fees in connection with the renewal of a 45-year property lease in respect of a warehouse	3,600
Legal fees in connection with the issue of debentures (see note 9)	15,200
	18,800

Note 4 – Other expenses

The figure of £230,240 for other expenses includes £1,300 for entertaining suppliers and £900 for entertaining employees.

Note 5 – Income from property

Gastron Ltd lets out the whole of an unfurnished freehold office building that is surplus to requirements. The office building was let from 1 April 2009 to 31 December 2009 at a monthly rent of £1,800, payable in advance. On 31 December 2009 the tenant left owing two months' rent which Gastron Ltd was unable to recover. During January 2010 the company spent £3,700 decorating the property. The office building was then re-let from 1 February 2010 at a monthly rent of £1,950, on which date the new tenant paid six months' rent in advance.

Note 6 – Bank interest received

The bank interest was received on 31 March 2010. The bank deposits are held for non-trading purposes.

Note 7 – Dividends received
During the year ended 31 March 2010 Gastron Ltd received dividends of £36,000 from Tasteless plc, an unconnected UK company, and dividends of £18,000 from Culinary Ltd, a 100% UK subsidiary company (see note 11). Both figures are the actual cash amounts received.

Note 8 – Profit on disposal of shares
The profit on disposal of shares is in respect of a 1% shareholding that was sold on 14 October 2009. The disposal resulted in a chargeable gain of £74,800. This figure is after taking account of indexation.

Note 9 – Interest payable
The interest payable is in respect of the company's 5% debenture loan stock that was issued on 1 April 2009. The proceeds of the issue were used to finance the company's trading activities. Interest of £30,400 was paid on 30 September 2009 and again on 31 March 2010.

Note 10 – Plant and machinery
On 1 April 2009 the tax written down values of plant and machinery were as follows:

	£
Main pool	16,700
Expensive motor car	18,400

The following transactions took place during the year ended 31 March 2010:

		Cost/(Proceeds)
		£
19 May 2009	Purchased equipment	21,600
12 July 2009	Purchased motor car (1) CO_2 emissions 140 g/km	9,800
11 August 2009	Purchased motor car (2) CO_2 emissions 105 g/km	16,200
5 October 2009	Purchased a lorry	17,200
5 March 2010	Sold equipment	(3,300)

The equipment sold on 5 March 2010 for £3,300 was originally purchased in 2005 for £8,900.

Note 11 – Subsidiary company
Gastron Ltd owns 100% of the ordinary share capital of Culinary Ltd. On 13 February 2010 Culinary Ltd sold a freehold factory and this resulted in a capital loss of £66,000. For the year ended 31 March 2010 Culinary Ltd made no other disposals and paid corporation tax at the small company rate of 21%.

Required

(a) Calculate Gastron Ltd's tax adjusted trading profit for the year ended 31 March 2010, after deducting capital allowances. Your computation should commence with the profit before taxation figure of £640,000, and should list all of the items referred to in notes (1) to (9) indicating by the use of zero (0) any items that do not require adjustment. **(15 marks)**

(b) Calculate Gastron Ltd's corporation tax liability for the year ended 31 March 2010, on the basis that no election is made between Gastron Ltd and Culinary Ltd in respect of capital gains. **(7 marks)**

(c) State the date by which Gastron Ltd's corporation tax liability for the year ended 31 March 2010 should be paid, and advise the company of the interest that will be due if the liability is not paid until 31 August 2011. **(3 marks)**

(d) Explain the group relationship that must exist in order for two or more companies to form a group for capital gains purposes. **(2 marks)**

(e) State the time limit for Gastron Ltd and Culinary Ltd to make a joint election to transfer the capital gain on Gastron Ltd's disposal of shares (see note 8) to Culinary Ltd, and explain why such an election will be beneficial.

(3 marks)

(Total = 30 marks)

VAT

Questions 46 to 50 cover the VAT rules for both corporate and unincorporated businesses, the subject of Part F of the BPP Study Text for Paper F6.

46 Lithograph Ltd (BTX 06/06) 18 mins

Lithograph Ltd runs a printing business, and is registered for VAT. Because its annual taxable turnover is only £250,000, the company uses the annual accounting scheme so that it only has to prepare one VAT return each year. The annual VAT period is the year ended 31 December.

Year ended 31 December 2008

The total amount of VAT payable by Lithograph Ltd for the year ended 31 December 2008 was £10,200.

Year ended 31 December 2009

The following information is available:

(1) Sales invoices totalling £250,000 were issued to VAT registered customers, of which £160,000 were for standard rated sales and £90,000 were for zero-rated sales.

(2) Purchase invoices totalling £45,000 were received from VAT registered suppliers, of which £38,000 were for standard rated purchases and £7,000 were for zero-rated purchases.

(3) Standard rated expenses amounted to £28,000. This includes £3,600 for entertaining customers.

(4) On 1 January 2009 Lithograph Ltd purchased a motor car costing £18,400 for the use of its managing director. The manager director is provided with free petrol for private mileage, and the cost of this is included in the standard rated expenses in note (3). The relevant annual scale charge is £1,385. Both figures are inclusive of VAT.

(5) During the year ended 31 December 2009 Lithograph Ltd purchased machinery for £24,000, and sold office equipment for £8,000. Input VAT had been claimed when the office equipment was originally purchased.

(6) On 31 December 2009 Lithograph Ltd wrote off £4,800 due from a customer as a bad debt. The debt was in respect of an invoice for a standard rated supply that was due for payment on 31 May 2009.

Unless stated otherwise all of the above figures are exclusive of VAT. Assume that the standard rate of VAT was 15% in both 2008 and 2009.

Required

(a) Calculate the monthly payments on account of VAT that Lithograph Ltd will have made in respect of the year ended 31 December 2009, and state in which months these will have been paid. **(3 marks)**

(b) (i) Calculate the total amount of VAT payable by Lithograph Ltd for the year ended 31 December 2009. **(5 marks)**

(ii) Based on your answer to part (i) above, calculate the balancing payment that would have been paid with the annual VAT return, and state the date by which this return was due for submission. **(2 marks)**

(Total = 10 marks)

47 Tardy Ltd (BTX 06/05) **18 mins**

Tardy Ltd registered for value added tax (VAT) on 1 July 2007. The company's VAT returns have been submitted as follows:

Quarter ended	*Submitted*	*VAT paid/ (refunded)*
		£
30 September 2007	One month late	18,600
31 December 2007	One month late	32,200
31 March 2008	On time	8,800
30 June 2008	Two months late	3,400
30 September 2008	One month late	(6,500)
31 December 2008	On time	42,100
31 March 2009	On time	(2,900)
30 June 2009	On time	3,900
30 September 2009	On time	18,800
31 December 2009	Two months late	57,300
31 March 2010	On time	9,600

Tardy Ltd always pays any VAT that is due at the same time that the related return is submitted.

During May 2010 Tardy Ltd discovered that a number of errors had been made when completing its VAT return for the quarter ended 31 March 2010. As a result of these errors the company will have to make an additional payment of VAT.

Required

(a) State, giving appropriate reasons, the default surcharge consequences arising from Tardy Ltd's submission of its VAT returns for the quarter ended 30 September 2007 to the quarter ended 31 December 2009 inclusive. **(7 marks)**

(b) Explain how Tardy Ltd can voluntarily disclose the errors relating to the VAT return for the quarter ended 31 March 2010. You are not required to discuss any penalties arising as a result of these errors. **(3 marks)**

(Total = 10 marks)

48 Ram-Rom Ltd (BTX 12/05) **18 mins**

Ram-Rom Ltd commenced trading as a manufacturer of computer equipment on 1 January 2009. The company registered for value added tax (VAT) on 1 September 2009. Its inputs for each of the months from January 2009 to August 2009 are as follows:

		Goods purchased	*Services incurred*	*Fixed assets*
		£	£	£
2009	January	12,300	1,400	42,000
	February	11,200	5,100	–
	March	12,300	7,400	–
	April	16,400	6,300	14,400
	May	14,500	8,500	–
	June	18,800	9,000	–
	July	18,500	9,200	–
	August	23,400	8,200	66,600

During August 2009 Ram-Rom Ltd sold all of the fixed assets purchased during April 2009 for £12,000.

On 1 September 2009 £92,000 of the goods purchased were still in stock.

The above figures are all exclusive of VAT. Ram-Rom Ltd's sales are all standard rated.

The following is a sample of the new sales invoice that Ram-Rom Ltd is going to issue to its customers:

SALES INVOICE

Ram-Rom Ltd			**Customer: XYZ Computers plc**
123 The High Street			**Address: 99 The Low Road**
London WC1 2AB			**Glasgow G1 2CD**
Telephone 0207 100 1234			
Invoice Date and Tax Point: 1 September 2009			
Item Description	**Quantity**	**Price**	
		£	
Hard Drives	5	220.00	
Motherboards	2	100.00	
Total Amount Payable (Including VAT)		320.00	

Directors: Y Ram & Z Rom
Company Number: 1234567
Registered Office: 123 The High Street, London WC1 2AB

Ram-Rom Ltd pays for all of its inputs one month after receiving the purchase invoice. However, many customers are not paying Ram-Rom Ltd until four months after the date of the sales invoice. In addition, several customers have recently defaulted on the payment of their debts. In order to encourage more prompt payment, Ram-Rom Ltd is considering offering all of its customers a 5% discount if they pay within one month of the date of the sales invoice. No discount is currently offered.

Required

(a) Explain why Ram-Rom Ltd was able to recover input VAT totaling £37,380 in respect of inputs incurred prior to registering for VAT on 1 September 2009. **(5 marks)**

(b) State what alterations Ram-Rom Ltd will have to make to its new sales invoices in order for them to be valid for VAT purposes. **(3 marks)**

(c) Explain the VAT implications of Ram-Rom Ltd offering all of its customers a 5% discount for prompt payment. **(2 marks)**

(Total = 10 marks)

49 Sandy Brick (BTX 06/04) 18 mins

Sandy Brick has been a self-employed builder since 2004. He registered for value added tax (VAT) on 1 January 2010, and is in the process of completing his VAT return for the quarter ended 31 March 2010. The following information is relevant to the completion of this VAT return:

(1) Sales invoices totaling £44,000 were issued to VAT registered customers in respect of standard rated sales. Sandy offers his VAT registered customers a 5% discount for prompt payment.

(2) Sales invoices totaling £16,920 were issued to customers that were not registered for VAT. Of this figure, £5,170 was in respect of zero-rated sales with the balance being in respect of standard rated sales. Standard rated sales are inclusive of VAT.

(3) On 10 January 2010 Sandy received a payment on account of £5,000 in respect of a contract that was completed on 28 April 2010. The total value of the contract is £10,000. Both of these figures are inclusive of VAT at the standard rate.

(4) Standard rated materials amounted to £11,200, of which £800 were used in constructing Sandy's private residence.

(5) Since 1 December 2007 Sandy has paid £120 per month for the lease of office equipment. This expense is standard rated.

(6) During the quarter ended 31 March 2010 £400 was spent on mobile telephone calls, of which 30% relates to private calls. This expense is standard rated.

(7) On 20 February 2010 £920 was spent on repairs to a motor car. The motor car is used by Sandy in his business, although 20% of the mileage is for private journeys. This expense is standard rated.

(8) On 15 March 2010 equipment was purchased for £6,000. The purchase was partly financed by a bank loan of £5,000. This purchase is standard rated.

Unless stated otherwise all of the above figures are exclusive of VAT. Assume that the standard rate of VAT has always been 17.5%.

Required

Calculate the amount of VAT payable by Sandy for the quarter ended 31 March 2010. **(10 marks)**

50 Annie Attic (TX 06/09) 27mins

Anne Attire runs a retail clothing shop. She is registered for value added tax (VAT) and is in the process of completing her VAT return for the quarter ended 30 November 2009.

The following information is available (all figures are exclusive of VAT):

(1) Cash sales amounted to £42,000, of which £28,000 was in respect of standard rated sales and £14,000 was in respect of zero-rated sales.

(2) Sales invoices totalling £12,000 were issued in respect of credit sales. These sales were all standard rated. Anne offers all of her credit sale customers a 5% discount for payment within one month of the date of the sales invoice, and 90% of the customers pay within this period. The sales figure of £12,000 is stated before any deduction for the 5% discount.

(3) Purchase and expense invoices totalling £19,200 were received from VAT registered suppliers. This figure is made up as follows:

	£
Standard rated purchases and expenses	11,200
Zero rated purchases	6,000
Exempt expenses	2,000
	19,200

Anne pays all of her purchase and expense invoices two months after receiving the invoice.

(4) On 30 November 2009 Anne wrote off two impairment losses (bad debts) that were in respect of standard rated credit sales. The first impairment loss was for £300, and was in respect of a sales invoice due for payment on 15 July 2009. The second impairment loss was for £800, and was in respect of a sales invoice due for payment on 10 April 2009.

Anne does not use the cash accounting scheme.

Anne will soon be 60 years old and is therefore considering retirement. On the cessation of trading Anne can either sell the fixed assets of her business on a piecemeal basis to individual VAT registered purchasers, or she can sell the entire business as a going concern to a single VAT registered purchaser.

Required

(a) Calculate the amount of VAT payable by Anne Attire for the quarter ended 30 November 2009 and state the date by which the VAT return for this period was due for submission. **(6 marks)**

(b) State the conditions that Anne Attire must satisfy before she will be permitted to use the cash accounting scheme and advise her of the implications of using the scheme. **(5 marks)**

(c) Advise Anne Attire as to what will happen to her VAT registration, and whether output VAT will be due in respect of the fixed assets, if she ceases trading and then:

  (i) Sells her fixed assets on a piecemeal basis to individual VAT registered purchasers; **(2 marks)**

  (ii) Sells her entire business as a going concern to a single VAT registered purchaser. **(2 marks)**

(Total = 15 marks)

Answers

1 Brad and Lauren

Text references. Chapters 2 and 3.

Top tips. Note that the question asked for the tax liability and not the tax due – the tax liability is **before** deduction of any tax credits such as PAYE.

Marking scheme

			Marks
(a)	**Brad**		
	Employment income	½	
	Interest	½	
	PA	½	
	Tax bands	1	
	Tax rates	1	
	Exempt income	1	
	Lauren		
	Interest	½	
	Treasury stock (gross)	½	
	Dividends	½	
	PA	½	
	Gift Aid – extend BRB	1	
	Tax bands	1	
	Tax rates	1½	
	ISA – exempt income		10
(b)	**Tom**		
	Pensions	½	
	Building society interest	½	
	Gift Aid	1	
	PAA	1	
	Tax bands	1	
	Tax rates	1	
			5
			15

(a) **Brad: Income Tax Computation 2009/10**

	Non-savings £	*Savings* £	*Total* £
Employment income	44,500		
BSI (2,200 × 100/80)		2,750	
Net income	44,500	2,750	47,250
Less PA	(6,475)		(6,475)
Taxable income	38,025	2,750	40,775

Tax

	£
On non savings income	
£37,400 @ 20%	7,480
£625 @ 40%	250
On savings income	
£2,750 @ 40%	1,100
Income tax liability	8,830

Note. Premium Bond winnings and interest on National Savings & Investments Certificates are exempt income.

Lauren: Income Tax Computation 2009/10

	Non-savings	*Savings*	*Dividend*	*Total*
	£	£	£	£
Employment income	46,000			
BSI (2,200 × 100/80)		2,750		
Treasury stock		2,000		
Dividends (2,250 × 100/90)			2,500	
Net income	46,000	4,750	2,500	53,250
Less PA	(6,475)			(6,475)
Taxable income	39,525	4,750	2,500	46,775

Tax

	£
On Non-savings Income	
£37,400 @ 20%	7,480
£1,250 @ 20% (note)	250
£875 @ 40%	350
On Savings Income	
£4,750 @ 40%	1,900
On Dividend Income	
£2,500 @ 32.5%	813
Income tax liability	10,793

Note. The basic rate band is extended by the gross amount of the Gift Aid payment. £37,400 + (1,000 × 100/80) = £38,650. Dividends and interest received from an ISA are exempt.

(b) **Tom: Income Tax Computation 2009/10**

	Non-savings income	*Savings income*	*Total*
	£	£	£
State pension	4,226		
Employment pension	6,390		
BSI (13,520 × 100/80)		16,900	
Net income	10,616	16,900	27,516
Less age allowance (W)	(9,182)		(9,182)
Taxable income	1,434	16,900	18,334

Tax

	£
On Non-savings income	
£1,434 @ 20%	287
On Savings income	
(£2,440 – £1,434) £1,006 @ 10%	101
(£16,900 – £1,006) £15,894 @ 20%	3,179
Income tax liability	3,567

Working

Age enhanced personal allowance

	£	£
PAA > 65		9,490
Net income	27,516	
Less Gift Aid £3,200 × 100/80	(4,000)	
	23,516	
Less limit	(22,900)	
	616	
÷ 2		(308)
PAA		9,182

Note. The grossed up value of the Gift Aid payment is deducted from net income when calculating the age allowance.

2 Domingo, Erigo and Fargo

Text references. Chapters 3 and 4 on employees, Chapter 17 on self assessment for individuals.

Top tips. Watch out for the starting rate band for savings income where there is little or no non-savings income.

Easy marks. The administrative aspects in parts (b) and (c) were easy marks.

Examiner's comments. In part (a) many candidates did not appreciate that donations to charity not made under gift aid are simply ignored, and some candidates missed the income limit for the age-related personal allowance. The expense claim in respect of the business mileage driven by the employed brother often caused problems. Either it was incorrectly calculated, or it was treated as a benefit. Part (b) was well answered. In part (c) few candidates appreciated that the period of retention differs between taxpayers in business and those not in business. However, virtually all candidates were aware of the £3,000 penalty.

Marking scheme

				Marks
(a)	(i)	*Domingo Gomez*		
		Pensions	1	
		Building society interest	1	
		Interest from savings certificates	½	
		Donations	½	
		Personal allowance	2	
		Income tax	1	
				6
	(ii)	*Erigo Gomez*	½	
		Salary	1	
		Pension contributions	1	
		Charitable payroll deductions	1	
		Relocation costs	1½	
		Mileage allowance	½	
		Personal allowance	½	
		Income tax		6

(iii)	*Fargo Gomez*		
	Trading profit	½	
	Pre-trading expenditure	1	
	Capital allowances	2	
	Personal allowance	½	
	Extension of basic rate band	2	
	Income tax	1	
			7
(b)	Paper returns	2	
	Return filed online	1	
			3
(c)	Domingo and Erigo	1	
	Fargo	1	
	Penalty for not keeping records	1	
			3
			25

(a) (i) **Domingo Gomez – Income tax computation 2009/10**

	Non-savings income	*Savings income*	*Total*
	£	£	£
State pension	4,500		
Occupational pension	2,300		
BSI £14,400 × 100/80		18,000	
NS&I certificate interest - exempt			
Net income	6,800	18,000	24,800
Less: PAA	(6,800)	(1,740)	(8,540)
Taxable income	-	16,260	16,260

Income tax

£		£
2,440	@ 10%	244
13,820	@ 20%	2,764
16,260		
Income tax liability		3,008

Note. No tax relief is available in respect of the donations as they were not made under the gift aid scheme.

Working

	£
Net income	24,800
Less income limit	(22,900)
Excess	1,900
PAA (65 - 74)	9,490
Less half excess £2,200 × ½	(950)
Revised PAA	8,540

(ii) **Erigo Gomez – Income tax computation 2009/10**

	Non-savings income £
Salary	36,000
Less: pension contributions £36,000 x 6%	(2,160)
charitable payroll deductions £100 x 12	(1,200)
	32,640
Relocation costs (W1)	3,400
	36,040
Less: mileage allowance (W2)	(2,400)
Net income	33,640
Less: personal allowance	(6,475)
Taxable income	27,165
Income tax	
£27,165 @ 20%/ Income tax liability	5,433

Workings

1 Only £8,000 of relocation costs are exempt, and so the taxable benefit is £3,400 (11,400 – 8,000).

2 The mileage allowance received will be tax-free, and Erigo can make the following expense claim:

	£
10,000 miles @ 40p	4,000
8,000 miles @ 25p	2,000
	6,000
Mileage allowance 18,000 @ 20p	(3,600)
	2,400

(iii) **Fargo Gomez – Income tax computation 2009/10**

	Non-savings income £
Trading profit £(64,800 – 2,600) (N)	62,200
Less: capital allowances (W1)	(1,100)
Net income	61,100
Less: personal allowance	(6,475)
Taxable income	54,625

Income tax

£	
37,400 @ 20%	7,480
8,200 @ 20% (W2)	1,640
9,025 @ 40%	3,610
54,625	
Income tax liability	12,730

Note. The advertising expenditure incurred during May 2009 is pre-trading, and is treated as incurred on 6 July 2009. An adjustment is therefore required.

Workings

1 Fargo's period of account is nine months' long so the capital allowances in respect of his motor car are £11,000 × 20% x 9/12 = 1,650 × 16,000/24,000 = £1,100.

2 Fargo's basic rate tax band is extended by £5,200 in respect of the personal pension contribution and £2,400 × 100/80 = £3,000 in respect of the gift aid donations. The extension to the basic rate band is therefore £(5,200 + 3,000).= £8,200.

(b) (1) Unless the return is issued late, the latest date that Domingo and Erigo can file paper self-assessment tax returns for 2009/10 is 31 October 2010.

(2) If Domingo completes a paper tax return by 31 October 2010 then HM Revenue and Customs will prepare a self-assessment tax computation on his behalf.

(3) Fargo has until 31 January 2011 to file his self-assessment tax return for 2009/10 online.

(c) (1) Domingo and Erigo were not in business during 2009/10, so their records must be retained until one year after 31 January following the tax year, which is 31 January 2012.

(2) Fargo was in business during 2009/10, so all of his records (both business and non-business) must be retained until five years after 31 January following the tax year, which is 31 January 2016.

(3) A failure to retain records for 2009/10 could result in a maximum penalty of £3,000.

3 Vigorous plc

Text references. Chapters 3 and 4 cover employee taxation.

Top tips. The tests for being a P11D employee are the same as deciding that an employee is not an excluded employee for the purposes of the benefits code.

Easy marks. Car and fuel benefits should provide easy marks and stating the exempt benefit of a mobile phone was worth ½ mark.

Examiner's comments. This question was answered quite badly. In part (a) the majority of candidates appreciated that a P11D employee is one earning £8,500 per year or more, but very few mentioned this figure includes benefits. In part (b) very few candidates correctly calculated the benefit arising from the beneficial loan. However, quite a few candidates correctly calculated the benefit arising from the sale at an under-value of a second-hand asset. Part (c) was not answered particularly well, with few candidates mentioning more than one way in which the income tax liability in respect of benefits is collected.

Marking scheme

			Marks
(a)	Earnings limit	1	
	Test – cash and benefits	1	
	Directors	1	
			3
(b)	**Andrea**		
	Car benefit – %	1	
	– contributions	1	
	– calculations	½	
	Fuel benefit	1	
	Living accommodation – annual value	½	
	– additional benefit	2	
	– furniture	1	
	Mobile phone	½	
	Ben		
	Loan – average method	1½	
	– strict method	2	
	Relocation	1	
	Car benefit – %	1	
	– calculation	1	

	Chai		
	Van	1	
	Television – current MV calculation	1	
	– original MV calculation	1½	
	Health club	1	
	Computer	½	
			19
(c)	PAYE code	1	
	Self assessment	1	
	Other collection methods	1	
			3
			25

(a) A P11D employee is one who is an employee earning at least £8,500 per annum or a director (in most cases).

In deciding whether an employee earns £8,500, add together the total earnings and benefits that would be taxable if the employee was a P11D employee.

A director is not a P11D employee if he does not have a material interest in the company (control of more than 5% of the ordinary share capital) and is either a full time working director of the company or the company is non-profit making or is established for charitable purposes only.

(b) **Andrea**

Car benefit

Amount by which CO_2 emissions exceed base line:

(260 – 135) = 125 ÷ 5 = 25

Add to 15% = 40% – but maximum taxable % is 35%

	£
£19,400 × 35%	6,790
Less contribution for private use £150 × 12	(1,800)
Taxable benefit for P11D	4,990

Fuel benefit

£16,900 × 35% = £5,915

Living accommodation

Annual value: £7,000

Additional benefit

	£
Cost of property	130,000
Improvements before 6 April 2009	14,000
	144,000
Less de minimis	(75,000)
	69,000

× 4.75% (official rate of interest) = £3,278

Furniture

20% × £6,000 = £1,200

Mobile phone

Exempt benefit

Ben

Taxable cheap loan

Average method $\frac{120{,}000 + 100{,}000}{2}$ = £110,000 × 4.75% × 9/12 = £3,919

Strict method

	£
1 July – 30 September	
£120,000 × 4.75% × 3/12	1,425
1 October – 31 March	
£100,000 × 4.75% × 6/12	2,375
	3,800

Ben should elect for the strict method.

Note. This was the answer that the examiner expected. However, strictly speaking Vigorous Plc would enter the average method figure of £3,919 on the P11D and then it would have been up to the employee to elect for the strict method.

Relocation costs

First £8,000 – exempt

Excess is taxable benefit £(9,300 – 8,000) = £1,300

Car benefit

Round down CO_2 emissions to nearest 5 ie 130

Below baseline so the taxable % is 15 + 3% (for diesel car) = 18%

Taxable benefit for P11D

18% × £11,200 × 6/12 = £1,008

Chai

Van benefit

Scale charge

£3,000 × 10/12 = £2,500

Television

		£
Greater of:		
(i)	Current market value	250
	Less price paid by employee	(150)
		100
	And	
		£
(ii)	Market value when first provided	800
	Less benefit 2007/08 (20% × £800)	(160)
	benefit 2008/09 (20% × £800)	(160)
		480
	Less price paid	(150)
		330

Taxable benefit for P11D: £330

Health club membership

Cost to employer (marginal cost so limited to direct costs): £150

Computer

Benefit for private use £1,900 × 20% = £380

(c) Income tax on benefits provided for more than one year will usually be collected in future years by adjusting the employee's PAYE code. Alternatively tax will be collected through the self assessment system.

However tax up to £2,000 can be collected by adjusting the PAYE code for the employee.

Tax on minor benefits may be paid by the employer under an employees' PAYE settlement agreement.

4 Bryan Thompson

Text references. Chapter 2 on tax computation. Chapters 3 and 4 on employees. Chapter 6 on property income. Chapter 12 on NIC.

Top tips. Be methodical and work through each item in a separate working. You can then summarise the results in the tax computation.

Marking scheme

			Marks
(a)	*Employment income*		
	Salary	½	
	Company Car	2	
	Fuel	1	
	Wife's car	2	
	Wife's fuel	1	
	Pension contribution – Bryan	1	
	– Employer	1	
	PMI	2	
	Overseas trip	2	
	Relocation expenses	2	
	Property business – Income	½	
	– Expenses	½	
	– Wear and tear	1	
	– Joint income	1	
	Interest	1	
	Dividends	1	
	PA	1	
	Tax bands	2½	
	Tax rates	2	
			25
(b)	NIC – Class 1	4	
	– No Class 1A (employer only)	1	
			5
			30

(a) **Income tax**

	Non-savings	*Savings*	*Dividend*
	£	£	£
Employment income (W1)	87,899		
Rental income (W4)	4,000		
Dividends (1,800 × 100/90)			2,000
Bank interest (3,200 × 100/80)		4,000	
Net income	91,899	4,000	2,000
Personal allowance	(6,475)		
Taxable income	85,424	4,000	2,000

	£
Income tax	
£37,400 @ 20%	7,480
£48,024 @ 40%	19,210
Savings income	
£4,000 × 40%	1,600
Dividends	
£2,000 @ 32.5%	650
Tax liability	28,940

Workings

1 *Employment income*

	£
Salary	75,000
Car benefit: £25,000 @ ((155 – 135)/5 + 15%) = 19%	4,750
Fuel £16,900 @ 19%	3,211
Car for wife (note 1) £7,500 @ 15% = 1,125 × 6/12	563
Medical insurance (note 2)	1,200
Trip (W2)	1,125
Removal costs (W3)	9,550
Total	95,399
Less occupational pension contribution (note 3)	
10% × £75,000	(7,500)
Employment income	87,899

2 *Trip to Florida*

	£	£
Wife's flight		1,000
Hotel charge	100	
Single charge	(75)	
Extra re wife	25 × 5	125
		1,125

3 *Removal expenses*

	£
Agents fees	4,500
Removal costs	750
Stamp duty	10,500
Legal fees	1,800
	17,550
Less allowed	(8,000)
Assessable	9,550

4 *Rental income*

	£	£
Rent		20,000
Caretaker	2,600	
Heat and Light	1,400	
Interest	6,000	
Wear and tear 10% × £20,000	2,000	
		(12,000)
		8,000

£8,000 × ½ = £4,000

Notes

(1) Wife's fuel is not a taxable benefit as she pays for all of her private fuel.

(2) Son's medical costs already covered by Private Medical Insurance which is taxable on Bryan as a taxable benefit.

(3) Bryan's pension contribution is deducted directly from his salary at source. The contribution paid by his employer is not a taxable benefit.

(b) NIC

Bryan will pay Class 1 NICs on his salary only.

			£
(43,875 – 5,715)	=	38,160 @ 11% =	4,198
(75,000 – 43,875)	=	31,125 @ 1% =	311
Class 1 NIC due			4,509

No Class 1A is due in respect of the benefits as this is due from the employer only.

5 Sam and Kim White

Text references. Chapters 2, 3, 4, 7 and 8.

Top tips. Allocate your time for each part of the question and ensure you attempt every part.

Easy marks. Adjustment to profit in part (a) and Kim's income tax computation in part (b).

Examiner's comments. This question was very well answered by the majority of candidates. In part (a) the adjustments for use of office, business use of a private telephone and own consumption caused the most problems, with a number of candidates being unsure as to whether adjustments should be added or subtracted in order to arrive at the tax adjusted trading profit. Part (b) was also well answered, with only the expense claim for the business mileage causing any difficulty. This was often treated as a benefit rather than as an expense. Part (c) was answered reasonably well, especially the transfer into the spouse's sole name. Many candidates correctly calculated the amount of income tax saving.

Marking scheme

			Marks
(a)	Net profit	½	
	Depreciation	½	
	Motor expenses	1½	
	Patent royalties	1	
	Professional fees: breach of contract	½	
	Professional fees: professional fees	½	
	Gifts to customers	1	
	Own consumption	1	
	Use of office	1	
	Private telephone	1	
	Capital allowances – Pool	1	
	– Motor car	1½	
			11
(b)	**Sam White**		
	Trading profit	½	
	Building society interest	1	
	Personal allowance	½	
	Income tax	1	
	Kim White		
	Salary	½	
	Beneficial loan	1	
	Expense claim	2	
	Building society interest	½	
	Loan interest	1	
	Personal allowance	½	
	Income tax	1½	
			10
(c)	**Individual savings accounts**		
	Limit	1	
	Tax saving	1	
			2
	Transfer to Kim's sole name		
	Tax rates	1	
	Tax saving	1	
			2
			25

(a) **Sam White – Trading profit for the year ended 5 April 2010**

		£	£
Net profit			50,000
Add back:	Depreciation	7,600	
	Motor expenses £8,800 x 20% (N1)	1,760	
	Patent royalties (N2)	0	
	Professional fees: breach of contract	0	
	Professional fees: accountancy personal CGT advice	320	
	Other expenses: gifts to customers £(560 + 420) (N3)	980	
	Goods for own consumption	1,480	12,140
			62,140
Less:	Use of home £5,120 x 1/8	640	
	Private telephone £1,600 x 25%	400	
	Capital allowances (W)	6,100	(7,140)
Trading profit			55,000

Working – Capital allowances

	Main Pool	Motor car		Allowances
	£	£		£
TWDV brought forward	18,500	20,200		
WDA – 20%	(3,700)			3,700
WDA – restricted		(3,000)	× 80%	2,400
WDV carried forward	14,800	17,200		6,100

Notes

1 Of the 25,000 miles driven by Sam during the year ended 5 April 2010, 20,000 (5,000 + 15,000 [25,000 – 5,000 = 20,000 x 75%]) were for business journeys. The business proportion is therefore 80% (20,000/25,000 x 100).

2 Patent royalties are allowed as a deduction when calculating the trading profit, so no adjustment is required.

3 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 business making the gift.

(b) **Sam White – Income tax computation 2009/10**

	Non-savings income	Savings income	Total
	£	£	£
Trading income (part (a))	55,000		
Building society interest £1,200 x 100/80 = £1,500/2		750	
Net income	55,000	750	55,750
Less: personal allowance	(6,475)		(6,475)
Taxable income	48,525	750	49,275

Income tax	£
Non-savings income	
£37,400 x 20%	7,480
£11,125 x 40%	4,450
Savings income	
£750 x 40%	300
Income tax liability	12,230

Kim White – Income tax computation 2009/10

		Non-savings income	*Saving income*	*Total*
	£	£	£	£
Employment income				
Salary	21,600			
Loans (W1)	475			
	22,075			
Less expense claim (W3)	(4,625)	17,450		
BSI £1,200 x 100/80 = £1,500 ÷2			750	
Total income		17,450	750	18,200
Less deductible interest (W4)		(140)		(140)
Net income		17,310	750	18,060
Less personal allowance		(6,475)		(6,475)
Taxable income		10,835	750	11,585

Income tax

	£
Non-savings income	
£10,835 x 20%	2,167
Savings income	
£750 x 20%	150
Income tax liability	2,317

Workings

(1) The taxable benefit from the beneficial loan is £12,000 at 4.75% x 10/12 = £475.

(2) Ordinary commuting (travel between home and the permanent workplace) does not qualify for relief. The travel to a temporary workplace qualifies as it is for a period lasting less than 24 months.

(3) Kim can therefore make an expense claim based on 12,500 (11,200 + 1,300) miles as follows:

	£
10,000 miles at 40p	4,000
2,500 miles at 25p	625
	4,625

(4) The loan interest paid of £140 is eligible for relief since the loan was used by Kim to finance expenditure for a relevant purpose.

(c) **Individual savings accounts**

(1) Both Sam and Kim can invest a maximum of £7,200 each tax year into an ISA of which up to £3,600 can be held as cash.

(2) Interest received from ISAs is exempt from income tax, so Sam will save tax at the rate of 40% whilst Kim will save tax at the rate of 20% each on gross interest of £216 (£1,500 x 3,600/25,000).

Transfer to Kim's sole name

(1) Sam pays income tax at the rate of 40%, whilst Kim's basic rate tax band is not fully utilised.

(2) Transferring the building society deposit account into Kim's sole name would therefore save tax of £150 (£750 x 20% (40% – 20%)).

6 Edmond Brick

Text references. Chapter 6 deals with property income.

Top tips. Remember that property income is pooled to give a single profit or loss. However, if someone has furnished holiday lettings and other lettings, two sets of accounts have to be drawn up as if there were two separate UK property businesses. This is so that profits and losses treated as trade profits and losses can be identified. The examiner has helpfully structured this question so that you were required to make such separate calculations.

Easy marks. Deduction of expenses such as council tax, insurance and advertising were easy marks.

Examiner's comments. This was a very well answered question. In part (a) some candidates discussed the qualifying conditions for a furnished holiday letting rather than the advantages of a property being so treated. Parts (b) and (c) presented few problems. The only aspects that consistently caused difficulty were the capital allowances for the furnished holiday letting (candidates either claimed wear and tear allowance or deducted the full cost of the capital expenditure) and the furnished room (candidates did not appreciate that rent-a-room relief could be claimed).

Marking scheme

			Marks
(a)	Availability of capital allowances	1	
	Trading loss relief	1	
	Relevant earnings for pension purposes	1	
			3
(b)	Rent receivable	½	
	Repairs	1	
	Other expenses	½	
	Capital allowances	1	
			3
(c)	*Property two*		
	Rent receivable	½	
	Council tax	½	
	Insurance	½	
	Wear and tear allowance	1	
	Property three		
	Rent receivable	½	
	Insurance	½	
	Advertising	½	
	Impairment loss	½	
	Loan interest	½	
	Property four		
	Lease premium	1	
	Rent receivable	½	
	Insurance	½	
	Rent paid	½	
	Room		
	Rent received	½	
	Rent a room relief	1	
			9
			15

(a) The income tax advantages of Property one being treated as a trade under the furnished holiday letting rules are:

(i) Capital allowances are available on furniture instead of the 10% wear and tear allowance.
(ii) Loss relief is available against general income instead of just against property business income.
(iii) The income qualifies as relevant earnings for pension relief purposes.

(b) **Property one**

	£
Rent receivable £370 × 18	6,660
Less: repairs	(7,400)
other allowable expenditure	(2,710)
capital allowances	
£5,700 (covered by AIA)	(5,700)
Loss	(9,150)

(c) **Property two**

	£	£
Rent receivable £575 × 12	6,900	
Less: council tax	(1,200)	
insurance	(340)	
wear and tear allowance		
10% × £(6,900 – 1,200)	(570)	
Profit		4,790
Property three		
Rent receivable £710 × 7	4,970	
Less: insurance	(290)	
advertising	(670)	
impairment loss £710 × 3	(2,130)	
loan interest	(6,700)	
Loss		(4,820)
Property four		
Premium taxable as property business income (W)	13,800	
Rent receivable	4,600	
	18,400	
Less: insurance	(360)	
rent payable	(6,800)	
		11,240
Furnished Room		
Rent receivable	5,040	
Less: rent a room relief (note)	(4,250)	
Profit		790
Property business profit		12,000

Working

	£
Premium paid	15,000
Less: 2% × (5-1) × £15,000	(1,200)
Taxable as property business income	13,800

Note

Claiming rent a room relief in respect of the furnished room £(5,040 – 4,250) = £790 is more beneficial than the normal basis of assessment £(5,040 – 1,140) = £3,900.

7 Peter Chic

Text reference. Employment income and benefits are covered in Chapters 3 and 4. Property income is dealt with in Chapter 6. The computation of taxable income and the income tax liability is covered in Chapter 2. National insurance contributions are dealt with in Chapter 12.

Top tips. Set out the computation of taxable income in the standard three column layout. Use workings to show the details rather than putting them directly into the computation.

Easy marks. The calculation of national insurance contributions should have been easy marks.

Examiner's comments. In part (a) a few candidates did not appreciate that both bonuses were to be treated as earnings, whilst the basis of assessing the second mobile telephone was not always known. Some candidates deducted the gift aid donation rather than extending the basic rate tax band. In part (b) the most common mistake was to include taxable benefits when calculating Class 1 national insurance contributions.

Marking scheme

					Marks
(a)	Salary			½	
	Bonus payments			1	
	Car benefit	– Relevant percentage		1	
		– Capital contribution		½	
		– Calculation		½	
	Fuel benefit			1	
	Living accommodation		– Annual value	1	
			– Additional benefit	2	
	Mobile telephone			1	
	Health club membership			½	
	Overseas allowance			½	
	Property business profit		– Rent receivable	1	
			– Irrecoverable rent	½	
			– Repairs	½	
			– Advertising	½	
			– Loan interest	1	
			– Insurance	1	
			– Wear and tear allowance	1	
	Building society interest			½	
	Dividends			½	
	Premium bond prize			½	
	Personal allowance			½	
	Extension of basic rate band			1	
	Income tax			1½	
	Tax suffered at source			1½	
					21
(b)	Employee Class 1 NIC			1½	
	Employer Class 1 NIC			1½	
	Employer Class 1A NIC			1	
					4
					25

(a) **Income tax computation 2009/10**

	Non savings income	*Savings income*	*Dividend income*	*Total*
	£	£	£	£
Employment income (W1)	80,030			
Property income (W5)	3,560			
BSI £1,760 x 100/80		2,200		
Dividends £720 x 100/90			800	
Net income	83,590	2,200	800	86,590
Less: personal allowance	(6,475)			
Taxable income	77,115	2,200	800	80,115

Note

Premium bond prize is exempt from income tax.

	£	£
Tax		
£37,400 x 20%		7,480
£3,000 x 20% (extended band) (W6)		600
£36,715 x 40%		14,686
£2,200 x 40%		880
£800 x 32½%		260
Tax liability		23,906
Less: tax deducted at source		
PAYE	14,670	
BSI £2,200 x 20%	440	
Dividend £800 x 10%	80	(15,190)
Tax payable		8,716

Workings

1 *Employment income*

	£	£
Salary	45,600	
Bonus received 10.4.09	4,300	
Bonus received 25.3.10	3,600	53,500
Car benefit (W2)	7,175	
Fuel benefit (W2)	5,915	
Living accommodation (W3)	12,880	
Mobile phone (W4)	50	
Health club membership	510	
Overseas allowance – exempt up to £10 per night for overseas expenses	nil	26,530
Employment income		80,030

2 *Car benefit*

$$\frac{225-135}{5} = 18 + 15 + 3 \text{ (diesel)} = 36\%$$

Maximum % is 35.

	£
List price	22,500
Less: contribution	(2,000)
	20,500
x 35%	7,175

Fuel benefit

£16,900 × 35%	5,915

3 *Living accommodation*

	£	£
Annual benefit		8,225
Additional benefit		
Cost of property	160,000	
Improvements before start of tax year	13,000	
	173,000	
Less: de minimis	(75,000)	
	98,000	
Benefit @ 4.75%		4,655
Total accommodation benefit		12,880

4 *Mobile phone*

One mobile phone is exempt	
Second mobile phone is calculated on private use of asset basis ie £250 x 20%	£50

5 *Property income*

	£	£
Property one – rent receivable £500 x 5		2,500
Property two – rent receivable £820 x 8		6,560
		9,060
Irrecoverable rent £500 x 2	1,000	
Repairs to roof	600	
Advertising	875	
Loan interest	1,800	
Insurance £(660 x 3/12 + 1,080 x 9/12)	975	
Wear and tear £2,500 x 10% (N)	250	(5,500)
Property income		3,560

Note

The wear and tear allowance has been calculated as 10% of the gross rents receivable as this is more beneficial than 10% of the rents received.

6 Basic rate band extended by gross gift aid donations

£2,400 x 100/80	£3,000

(b) **National insurance contributions 2009/10**

Primary Class 1 (paid by Peter)

	£
£(43,875 – 5,715) = 38,160 × 11%	4,198
£(53,500 – 43,875) = 9,625 × 1%	96
	4,294
Secondary Class 1 (paid by Haute-Couture Ltd)	
£(53,500 – 5,715) = 47,785 x 12.8%	6,116
Class 1A (paid by Haute-Couture Ltd)	
£26,530 x 12.8%	3,396

8 Peach, Plum and Pear

Text references. Pensions are covered in Chapter 5. The basic income tax computation is dealt with in Chapter 2.

Top tips. Remember that higher rate tax relief for personal pension contributions made by higher rate taxpayers is given by extending the basic rate band.

Easy marks. Calculation of taxable income for ½ mark for each taxpayer should have been easy marks even if you were unsure of how to deal with the pension contributions.

Examiner's comments. This question was reasonably well answered, although there were few first-rate answers. For the first taxpayer the most common mistake was to extend the basic rate tax band by the amount of contributions rather than earnings. For the second taxpayer the basic rate band was often extended by the amount of annual allowance rather than the contributions. Many candidates did not appreciate that there would be an excess contribution charge. Very few candidates stated that the third taxpayer would have received tax relief up to £3,600 of her contributions.

Marking scheme

		Marks
Ann Peach		
Taxable income	½	
Extension of basic rate band	1	
Income tax	½	
Amount qualifying for tax relief	1	3
Basil Plum		
Taxable income	½	
Extension of basic rate band	1	
Income tax	1	
Excess contribution charge	1½	
Amount qualifying for tax relief	1	5
Chloe Pear		
Taxable income	½	
Income tax	½	
Amount qualifying for tax relief	1	2
		10

(a) **Ann Peach**

	Non Savings income
	£
Trading income	49,100
Less: personal allowance	(6,475)
Taxable income	42,625

Maximum personal pension contribution is higher of (1) £3,600 and (2) Relevant earnings £49,100 ie £49,100. The remaining £2,900 is not given tax relief.

Basic rate band is therefore £(37,400 + 49,100)	£86,500
Tax is therefore £42,625 x 20%	£8,525

(b) **Basil Plum**

	Non Savings income
	£
Employment income	330,000
Less: personal allowance	(6,475)
Taxable income	323,525

Maximum personal pension contribution is £330,000 but the excess charge applies to the contribution over the annual allowance (£245,000).

Basic rate band is therefore £(37,400 + 270,000)	£307,400

Tax	£
£307,400 x 20%	61,480
£16,125 x 40%	6,450
	67,930
Excess pension contribution charge	
£(270,000 – 245,000) = £25,000 x 40%	10,000
Income tax liability	77,930

(c) **Chloe Pear**

	Non Savings income
	£
Property income	25,000
Less: personal allowance	(6,475)
Taxable income	18,525

Maximum personal pension contribution is £3,600 since Chloe has no relevant earnings. This will have been given tax relief at source by Chloe paying £3,600 x 80% = £2,880. The remaining £4,600 contribution is not given tax relief.

Tax is therefore £18,525 x 20%	3,705

9 Noel and Liam Wall

Text references. Chapters 2 to 4, 7 to 9 and 12.

Top tips. Using familiar proformas for the adjustment to profits and computation of employment income should ensure that you present your workings in a clear and logical way.

To make sure that you don't miss anything it is a good idea to mark the question in some way, eg tick off items as you deal with them.

Easy marks. The adjustment to profits was fairly straightforward, as was the computation of the income tax liability in both cases. Make sure you allocate your time correctly to enable you to have time to calculate both liabilities.

Marking scheme

				Marks
(a)	Net profit		½	
	Depreciation		½	
	Motor expenses		1	
	Professional fees (½ each)		1½	
	Repairs and renewals (½ each)		1	
	Telephone		½	
	Travelling and entertaining		1	
	Other expenses (½ each)		1½	
	Capital allowances	– Motor car	1	
		– Guitar	1	
	Dividends		1	
	Personal allowance		½	
	Income tax		1½	
	Class 2 NIC		1	
	Class 4 NIC		1½	
				15
(b)	Salary		½	
	Car benefit	– Relevant percentage	1	
		– Calculation	½	
	Fuel benefit		1	
	Computer		1½	
	Mobile telephone		½	
	Golf club membership		½	
	Professional subscription		½	
	Building society interest		1	
	Personal allowance		½	
	Income tax		1	
	Class 1 NIC		1½	
				10
				25

(a) **Noel Wall – Income tax computation 2009/10**

	Non-savings income	*Dividend income*	*Total*
	£	£	£
Trading profits (W1)	72,075		
Dividends (£7,560 × 100/90)		8,400	
Net income	72,075	8,400	80,475
Less: PA	(6,475)		(6,475)
Taxable income	65,600	8,400	74,000

Tax	£
£37,400 @ 20%	7,480
£28,200 @ 40%	11,280
£8,400 @ 32.5 %	2,730
Tax liability	21,490
Class 2 NIC: 52 × £2.40	125
Class 4 NIC: £(43,875 – 5,715) × 8% + (72,075 – 43,875) × 1%	3,335

Workings

1 *Trading profit*

		£
Net profit		70,350
Add: depreciation	1,980	
Motor expenses $(5,600 \times \frac{8,400 - 7,560}{8,400})$	560	
Professional fees: accountancy	0	
Professional fees: personal tax advice fees	510	
Professional fees: defence of trade	0	
Repairs and renewals: new guitar (capital)	1,900	
Repairs and renewals: repairs to guitar	0	
Telephone: private calls	160	
Travelling and entertaining: entertaining clients	370	
Travelling and entertaining: parking fines	120	
Other expenses: donation to political party	100	
Other expenses: trade subscription	0	
Other expenses: golf club membership fee	625	6,325
		76,675
Less: capital allowances (W2)		(4,600)
Taxable trading profit		72,075

2 *Capital allowances*

	AIA	*Trader's Car (90%)*	*Allowances*
	£	£	£
TWDV b/f		32,800	
Addition – guitar	1,900		
AIA	(1,900)		1,900
WDA – restricted (note 1)		(3,000) × 90%	2,700
TWDV c/f		29,800	
Total allowances			4,600

Note: 90% (7,560/8,400) of the use of the car is for business purposes.

(b) **Liam Wall – Income tax computation 2009/10**

	Non-savings Income	*Savings Income*	*Total*
	£	£	£
Employment income (W1)	82,392		
BSI (£6,640 × 100/80)		8,300	
Net income	82,392	8,300	90,692
Less: PA	(6,475)		(6,475)
Taxable income	75,917	8,300	84,217

Tax

	£
£37,400 @ 20%	7,480
£38,517 @ 40%	15,407
£8,300 @ 40%	3,320
Tax liability	26,207

Class 1 NIC: £(43,875 – 5,715) × 11% + £(65,000 – 43,875) × 1% 4,409

Note. Taxable employment benefits are not subject to Class 1 NIC.

Workings

1 *Employment income*

	£
Salary	65,000
Car benefit (W2)	11,016
Fuel benefit (W3)	5,746
Provision of computer (W4)	270
Provision of mobile phone – exempt	–
Golf club membership	580
	82,612
Less: professional subscription	(220)
Employment income	82,392

2 *Car benefit*

Round CO_2 emissions down to nearest 5, ie 215

215 – 135 = 80 gkm

Divided by 5 = 16

Taxable % = 15 + 16 + 3 (diesel powered) – 34%

List price = £32,400

Value of benefit £32,400 × 34% = £11,016

3 *Fuel benefit*

£16,900 × 34% = £5,746

4 *Provision of computer*

Annual benefit = 20% × £1,800 = £360

The computer is only provided from 6 July 2009, so the benefit is time apportioned.

Assessable benefit = 9/12 × £360 = £270

10 Tony Note

Text references. Chapter 7 for adjustment to profits. Chapter 15 covers CGT reliefs.

Top tips. Work through each item in an adjustment to profits question methodically. You probably won't get every item correct but you can get lots of easy marks if you make sure you don't miss anything out.

Do not confuse income tax and CGT calculations. Keep them separate.

Marking scheme

			Marks
(a)	Adjustment of profits		
	Net profit	½	
	Depreciation	½	
	Motor expenses	½	
	Professional fees (½ each)	2	
	Repairs and renewals (½ each)	1	
	Travelling and entertaining (½ each)	1½	
	Wages and salaries	½	
	Other expenses	2	
	Goods for own use	1	
	Use of office	1	
	Telephone	1	
	CAs		
	AIA	1	
	WDA @ 20%	1	
	WDA max £3,000	1	
	Private use restriction	½	
	No IBAs	1	
			16
(b)	Income Tax		
	PA	½	
	Tax bands & rates	1	
	CGT		
	Calculation of gain	1	
	Rollover relief	2	
	AE	½	
	Tax rate	1	
			6
(c)	Time period	1	
	Reason	1	
	Consequences if does not retain	1	
			3
			25

(a) **Tony's adjusted trading profit y/e 5 April 2010**

	£	£
Net profit		19,600
Add:		
Depreciation	2,640	
Motor expenses (N1)	2,940	
Professional fees: accountancy	0	
Professional fees: debt collection	0	
Professional fees: personal financial planning (N2)	620	
Professional fees: planning permission (N2)	2,600	
Repairs and Renewals: replacement hard drive (N3)	0	
Repairs and Renewals: new printer (N3)	400	
Travelling and entertaining: business travel (N4)	0	
Travelling and entertaining: entertaining suppliers (N4)	480	
Travelling and entertaining: entertaining employees (N4)	0	
Wages and salaries: excess salary for wife (N5)	4,000	
Other expenses: wedding present to employee (N6)	0	
Other expenses: health club (N6)	710	
Other expenses: political party (N6)	60	
Other expenses: trade subscription (N6)	0	
Goods for own use (N9)	950	15,400
Less:		
Use of office (N7) (1/6 × £4,320)	(720)	
Private telephone (N8)	(170)	(890)
Adjusted profits		34,110
Less:		
Capital allowances (N10)		(3,980)
Taxable trading profit		30,130

Notes

1 Motor expenses

Total miles	20,000
Less: personal miles	(2,500)
– holiday	17,500
– private journeys 20% × 17,500	(3,500)
Allowable miles	14,000
(14,000/20,000 = 70% business proportion)	
Total disallowed miles (2,500 + 3,500)	6,000
$\frac{6,000}{20,000} \times £9,800$	2,940

2 Professional fees

Legal and professional charges are allowable if connected with the trade and do not relate to capital items. The personal financial planning advice fees are therefore not deductible as they are not connected with the trade. The planning permission fees are not deductible as they relate to capital expenditure.

3 Repairs and renewals

The cost of replacing the hard drive should be allowable so long as it does not significantly improve the computer. The expenditure on the new printer is capital expenditure and therefore is not an allowable deduction. However capital allowances will be available on this expenditure.

4 Travelling and entertaining

Customer/supplier entertaining is never allowable for income tax purposes.

5 Wages and salaries

The salary to Tony's wife is allowable to the extent that it is not excessive. As she is paid more than other staff performing the same job only £12,000 of the £16,000 paid to her will be allowable.

6 Other expenses

As the wedding present to the employee is small, this should be allowable for income tax purposes. Tony's heath club subscription is not allowable as it is not wholly and exclusively for the purpose of the trade. Donations to political parties are never allowed for income tax purposes. The trade subscription is allowable.

7 Use of office

Tony will be allowed a deduction of 1/6 x the running costs in respect of the use of the room in his home for business purposes.

8 Private telephone

The business proportion of home phone calls will be allowable for corporation tax purposes. The cost of the line rental is not allowable. Therefore 25% of the calls will be allowable. It has been assumed that the figure of £680 does not include line rental for these purposes.

9 Goods for own use

Tony cannot simply take goods from his business without making an adjustment to his profit. The market value of the goods taken (ie what a customer would pay for them) will need to be added back to the profit.

10 Capital allowances

	AIA	*Main Pool*	*Trader's Car (70%)*	*Allowances*
	£	£	£	£
TWDV b/f		7,400	16,200	
Additions: printer	400			
AIA	(400)			400
WDA @ 20%		(1,480)		1,480
WDA max			(3,000) @ 70%	2,100
TWDV c/f		5,920	13,200	
Total allowances				3,980

Note that there are no Industrial Buildings Allowances (IBAs) as the premises Tony uses are for retail purposes and therefore do not qualify for IBAs.

Notes 2-9 above are not required unless specifically asked for by the examiner. They are included here for tutorial purposes.

(b)

	£
Income tax:	
Trading profits (from (a))	30,130
Less: personal allowance	(6,475)
Taxable income	23,655
Tax liability	
Non savings income	
£23,655 @ 20%	4,731
CGT:	
Chargeable gain (W1)	110,000
Less: annual exemption	(10,100)
Taxable gain	99,900
CGT liability	
£99,900 × 18%	17,982

Workings

1 Chargeable gain

	£
Proceeds	320,000
Less: cost	(188,000)
	132,000
Less: rollover relief	(22,000)
Chargeable gain (W2)	110,000

Note: Entrepreneurs' relief is not available as Tony is not disposing of the whole of his business, merely replacing an asset.

2 Rollover relief

Rollover relief is available because one asset used in the trade has been sold and another one purchased within the required time period (one year before the disposal and 3 years after the disposal).

However, as not all of the proceeds are spent, full rollover relief is not available.

Instead, the amount of proceeds not reinvested will remain chargeable, with the remaining gain being deferred until the new building is sold.

	£
Proceeds received	320,000
Less: proceeds spent on new shop	(210,000)
Gain remaining chargeable	110,000

(c) Retaining records

As Tony is self employed he must retain his records for a period of five years from 31 January after the tax year ie 31 January 2016. This includes any information regarding the chargeable gains.

If he does not keep his records he can be charged up to £3,000 for each year of assessment for which he fails to keep records.

11 Malcolm

Text references. Chapter 10 looks at trading losses.

Top tips. You should not be tempted in a question like this merely to list the various loss reliefs. You need to make an attempt at giving your rationale for the use of the losses. Remember that you will probably get marks for your rationale even if you have not used the loss in the most efficient way.

Marking scheme

			Marks
(a)	Trading losses		
	2008/09	2	
	2009/10	2	
	Offset of loss – carry back against general income 2007/08	1	
	– current year general income 2008/09	1	
	Order of claims	1	
	No claims against general income 2009/10	1	
	Why no further claims against general income	2	
	Carry forward against future trade profits	2	
			12
(b)	Time limit – claim against general income	1	
	Time limit – carry forward against trading profits	2	
			3
			15

(a) Trading losses are:

	£	£
2008/09 (1.8.08 – 5.4.09)		
(£10,000 + 4/12 × £20,000)		(16,667)
2009/10 (1.12.08 – 30.11.09)		
Loss	20,000	
Less used in 2008/09	(6,667)	
		(13,333)
		(30,000)

Each of these losses can be relieved against the general income of the year of the loss and/or the preceding year.

2008/09 loss

	2007/08	*2008/09*
	£	£
Employment income	8,000	7,500
Interest (£3,040 × $\frac{100}{80}$)	3,800	3,800
Total income	11,800	11,300
Loss relief against general income	(11,800)	(4,867)
Net income	0	6,433

A claim against general income in 2007/08 results in a waste of personal allowances. However, the claim is worthwhile as it leads to a repayment of income tax in respect of the year and the alternative is to carry the loss forward.

A claim against general income in 2008/09 to utilise the balance of the 2008/09 loss obtains tax relief for the loss quickly and it only wastes a small amount of personal allowance.

2009/10 loss

A claim against general income in 2009/10 (ie against interest income) would not be worthwhile as it would merely waste the personal allowance. A claim against general income in 2008/09 would also waste the personal allowance but it would allow a further claim to be made to set the loss against the chargeable gain in 2008/09. However, this would waste the CGT annual exemption of £10,100 and save no CGT.

Alternatively, if a claim against general income was not made for the 2008/09 loss in 2007/08, the 2009/10 loss could be carried back against the general income of the previous three years under early years loss relief. £11,800 of the loss would be set off in 2007/08 and the balance in 2008/09 leaving net income in 2008/09 of £9,767. This is clearly less beneficial than the claim against general income for the 2008/09 loss considered above.

A better alternative is to carry the 2009/10 loss forward for relief against trading income of 2010/11:

	2010/11
	£
Trading income	16,000
Less carry forward loss relief	(13,333)
	2,667
Building society interest	3,800
	6,467

This leaves enough income in 2010/11 to absorb the personal allowance. Income tax is saved in 2010/11 on the whole of the loss set off.

(b) The claims against general income for the 2008/09 loss must be made by the 31 January which is nearly two years after the end of the tax year of the loss: thus by 31 January 2011.

There is no statutory time limit by which a claim to relieve a loss by carry forward must be made. However, a claim to establish the amount of the loss of 2009/10 to be carried forward must be made 5 April which is four years after the end of the year of the loss: thus by 5 April 2014. Once the loss is established, it will be carried forward and used where possible each year until used up.

12 Robert Sax

Text references. The basis period rules are all dealt with in Chapter 9.

Top tips. Be methodical in your approach. Deal with the opening year rules first, then identify the year of change, and apply the CYB to all other years. Apply the cessation rules to the final year.

Marking scheme

		Marks
2002/03	– actual basis	1½
2003/04	– Last 12m of period	2
2004/05	– CYB	1
Overlap profits created		2
2005/06	– CYB	
2006/07	– CYB	1½
2007/08	– CYB	
2008/09	– Identify year of change	1
	– 15 m/e 31.12.08	1
	– Deduct overlap profits	2
2009/10	– Identify year of cessation	1
	– Deduct overlap profits	2
		15

2002/03	1.6.02 – 5.4.03	
	$\frac{10}{16} \times$ £30,000	£18,750
2003/04	1.10.02 – 30.9.03	
	$\frac{12}{16} \times$ £30,000	£22,500
	Overlap profits	
	= 1.10.02 – 5.4.03 (6 months)	
	= $\frac{6}{16} \times$ £30,000	£11,250
2004/05	Y/e/30.9.04	£40,000
2005/06	Y/e 30.9.05	£50,000
2006/07	Y/e 30.9.06	£60,000
2007/08	Y/e 30.9.07	£55,000
2008/09	"Year of change"	
	1.10.07 – 31.12.08 (15m)	£75,000
	less overlap relief	
	$\frac{3}{6} \times$ £11,250	(5,625)
		£69,375
2009/10	Year of cessation	
	1.1.09 – 31.3.10	
	(£40,000 + £12,000)	£52,000
	less overlap relief	
	(£11,250 – £5,625)	(5,625)
		£46,375

13 Vanessa Serve and Serene Volley

Text references. Chapter 2 deals with taxable income and computation of income tax. Chapter 5 covers pensions. Look in Chapters 8 and 9 for computation of trading income and capital allowances. Chapters 3 and 4 cover employment income. Chapter 12 deals with national insurance contributions. Chapter 17 covers self assessment. Value added tax is dealt with in Chapters 25 and 26.

Top tips. You should use the standard layout for income tax computations, separating out the different types of income. Note that part (b) on VAT could be tackled without reference to part (a) and you might have wanted to start on part (b).

Easy marks. The calculation of the national insurance contributions in part (a)(ii) were easy marks. You should also have known the due dates in part (a)(iii).

Examiner's comments. In part (a) many candidates did not appreciate that it was not necessary to gross up the interest received from an investment account at the National Savings & Investment Bank, nor that interest from savings certificates is exempt from tax. The contribution to the occupational pension scheme was often used to extend the basic rate tax band rather than being deducted in calculating employment income. Many candidates wasted time in calculating a fuel benefit despite the question clearly stating that no fuel was provided for private journeys. The one aspect of the question that consistently caused problems was the calculation of the balancing payments and the payments on account, and this section was often not answered at all. It was disappointing that many candidates were not aware of the relevant due dates. The VAT aspects in part (b) were well answered, although far too many candidates incorrectly deducted input VAT when calculating the amount of VAT payable using the flat rate scheme.

Marking scheme

				Marks
(a)	(i)	*Vanessa Serve*		
		Trading profit	½	
		Capital allowances	1½	
		NS&I bank interest	1	
		Personal allowance	½	
		Extension of basic rate band	1	
		Income tax payable	1	
		Serene Volley		
		Salary	½	
		Pension contribution	1	
		Car benefit	1½	
		NS&I certificate interest – exempt	½	
		Personal allowance	½	
		Income tax liability	1	
		Income tax suffered at source	½	
				11
	(ii)	*Vanessa Serve*		
		Class 2 NICs	1	
		Class 4 NICs	1½	
		Serene Volley		
		Class 1 NICs	1½	
				4

(iii)	*Vanessa Serve*			
	Balancing payment	1		
	Due date	½		
	Payments on account	1		
	Due dates	½		
	Serene Volley			
	Balancing payment	½		
	Due date	½		
	No payment on account required	1		
			5	

(b)	(i)	*Output tax*		
		Sales	½	
		Input tax		
		Telephone	1	
		Car purchase	½	
		Car repairs	1	
		Equipment	1	
		Other expenses	1	
				5
	(ii)	Fixed percentage scheme limit	1	
		Simplified administration	2	
		VAT saving	2	
				5
				30

(a) (i) **Vanessa Serve – income tax**

	Non-savings income	Savings income	Total
	£	£	£
Trading profit	52,400		
Less: capital allowance (W1)	(1,820)		
Taxable trading income	50,580		
NS&I bank interest (gross)		1,100	
Net income	50,580	1,100	51,680
Less: personal allowance	(6,475)		
Taxable income	44,105	1,100	45,205

Tax

	£
£37,400 × 20%	7,480
£6,400 × 20% (extended band for pension)	1,280
£305 × 40%	122
£1,100 × 40%	440
Income tax liability/payable	9,322

Working 1

	Car		Allowance
	£		£
TWDV b/f	13,000		
Less WDA @ 20%	(2,600)	× 14/20	1,820
TWDV c/f	10,400		

Serene Volley – income tax

	Non-savings income
	£
Salary	26,400
Less: pension contribution	(1,320)
	25,080
Car benefit (W2)	4,100
Net income	29,180
Less: personal allowance	(6,475)
Taxable income	22,705

Working 2

Car benefit percentage
185 – 135 = 50 ÷ 5 = 10 +15 = 25%

£16,400 x 25% £4,100

Note
The interest on the NS&I savings certificates is exempt from income tax.

Tax

	£
£22,705 × 20% / Income tax liability	4,541
Less: PAYE	(4,490)
Income tax payable	51

(ii) **Vanessa Serve – national insurance contributions**

	£	£
Class 2 NICs		
52 × £2.40		125
Class 4 NICs		
£(43,875 – 5,715) = 38,160 × 8%	3,053	
£(50,580 – 43,875) = 6,705 × 1%	67	3,120
Total NICs		3,245

Serene Volley – national insurance contributions

Class 1 NICs	
£(26,400 – 5,715) = 20,685 × 11%	£2,275

(iii) **Vanessa Serve – balancing payment and payments on account**
Balancing payment 2009/10

	£
Income tax and Class 4 payable £(9,322 + 3,120)	12,442
Less: payments on account	(8,460)
Income tax due on 31 January 2011	3,982

Payments on account 2010/11

Due 31 January 2011 £12,442 ÷ 2	£6,221
Due 31 July 2011 £12,442 ÷ 2	£6,221

Serene Volley – balancing payment and payments on account

Balancing payment 2009/10

Income tax due 31 January 2011	£51

Payments on account 2010/11

No payment on account required for as income tax due for previous tax year is below £1,000 *de minimis* limit

(b) (i) **Vanessa Serve – value added tax payable**

		£	£
Output tax			
Sales:	£18,000 × 17.5%		3,150
Input tax			
Telephone:	£600 × 17.5% × 60% (note 1)	63	
Car purchase (note 2)		0	
Car repairs:	£987 × 7/47 (note 3)	147	
Equipment:	£1,760 × 17.5% (note 4)	308	
Other expenses:	£(2,200 – 400) x 17.5% (note 5)	315	(833)
VAT payable for quarter ending 31 March 2010			2,317

Notes

1 Only the business element of telephone use is recoverable.

2 No input tax can be recovered on a car not exclusively used for business purposes.

3 The whole of the input tax on the car repairs is recoverable because there is some business use of the car.

4 The input tax on the equipment is recoverable in this VAT period because the actual tax point is 29 March 2010 when payment was made.

5 No input tax is recoverable on business entertaining.

(ii) To join the flat rate scheme, Vanessa's business must have a tax exclusive annual taxable turnover of up to £150,000.

The main advantage of using the scheme is the simplification of VAT administration. Since Vanessa does not have VAT registered customers, she would not have to issue VAT invoices. Also she would not have to record purchase invoices.

There may also be a VAT saving by using the flat rate scheme. For example, if Vanessa had used the scheme in the quarter to 31 March 2010, her VAT liability would have been:

Output tax

£(18,000 + 3,150) = £21,150 x 6%	£1,269
This is a saving of £(2,317 – 1,269)	£1,048

14 Danielle

Text references. Chapter 10 deals with trading losses.

Top tips. You should use the standard layout for losses: set up the columns and lines required and then slot in the numbers. A loss memorandum is also useful as a double check that you have used the losses correctly.

Easy marks. There were easy marks for setting out the trading income and gains stated in the question and using the personal allowance and annual exemption.

Marking scheme

			Marks
(a)	Rate of tax	1	
	Timing of relief	1	
	Waste of personal allowance/annual exemption	1	
			3
(b)	Trading income (for all years)	1	
	Trading loss relief carried forward	1	
	Trading loss relief carried back	2	
	Building society interest (for all years)	1	
	Trading loss relief against general income	1	
	Personal allowance (where relevant)	1	
	Gains for all years	1	
	Capital loss relief carried forward	1	
	Trading loss relief against gains	1	
	Annual exemption	1	
	No loss to c/f	1	12
			15

(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 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. This also applies to temporary carry back relief against trading income.

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

(b) **Danielle – taxable income**

	2006/07	2007/08	2008/09	2009/10	2010/11
	£	£	£	£	£
Trading income	22,290	30,250	51,600	0	12,390
Less: trading loss relief carried forward	(0)	(0)	(0)	(0)	(2,200)
trading loss relief carried back	(19,750)	(30,250)	(0)	(0)	(0)
Net trading income	2,540	0	51,600	0	10,190
Building society interest	4,000	5,200	12,100	10,800	1,500
	6,540	5,200	63,700	10,800	11,690
Less: trading loss relief against general income (N)	(0)	(0)	(63,700)	(10,800)	(0)
Net income	6,540	5,200	0	0	11,690
Less: personal allowance	(6,540)	(5,200)	(0)	(0)	(6,475)
Taxable income	0	0	0	0	5,215

Danielle – taxable gains

	2006/07	2007/08	2008/09	2009/10	2010/11
	£	£	£	£	£
Gains	0	20,100	23,300	0	13,500
Less: trading loss relief against gains (N)	(0)	(0)	(23,300)	(0)	(0)
	0	20,100	0	0	13,500
Less: capital loss carried forward	(0)	(0)	(0)	(0)	(3,400)
	0	20,100	0	0	10,100
Less: annual exemption	(0)	(10,100)	(0)	(0)	(10,100)
Taxable gains	0	10,000	0	0	0

Note

Loss relief has been claimed against general income and gains for 2008/09 since this gives relief earlier than carrying the loss forward against trading income.

Trading loss memorandum

	£
Loss 2009/10	150,000
Less: used 2009/10	(10,800)
used 2008/09 (income)	(63,700)
used 2008/09 (gains)	(23,300)
used 2007/08	(30,250)
used 2006/07 (max)	(19,750)
used 2010/11	(2,200)
Loss unused	0

15 Roger and Brigitte

Text references. Partnerships are covered in Chapter 11.

Top tips. First allocate the profits of each accounting period between the partners.

Marking scheme

			Marks
(a)	Apportionment of profits		
	– period 30.6.06	1	
	– y/end 30.6.07	1	
	– y/end 30.6.08	2	
	– y/end 30.6.09	1	
	Assessable profits		
	2005/06	1	
	2006/07	1	
	2007/08	1	
	2008/09	2	
	2009/10	1	11
(b)	Overlap profits		
	Roger	1	
	Brigitte	1	
	Xavier	2	
			4
			15

(a) The profits of each partner are as follows.

		Total	Roger	Brigitte	Xavier
	£	£	£	£	£
1.10.05 – 30.6.06		30,000	15,000	15,000	
1.7.06 – 30.6.07		45,000	22,500	22,500	
1.7.07 – 30.6.08					
1.7.07 – 30.9.07 (3/12)	12,500		6,250	6,250	
1.10.07 – 30.6.08 (9/12)	37,500		12,500	12,500	12,500
		50,000	18,750	18,750	12,500
1.7.08 – 30.6.09		60,000	20,000	20,000	20,000

The assessable profits for the tax years are, therefore, as follows.

	Roger	*Brigitte*	*Xavier*
2005/06	£	£	£
(1.10.05 – 5.4.06)			
£15,000 × 6/9	10,000	10,000	–
2006/07			
(1.10.05 – 30.9.06)			
£15,000 + (£22,500 × 3/12)	20,625	20,625	–
2007/08			
(1.7.06 – 30.6.07)	22,500	22,500	
(1.10.07 – 5.4.08)			
£12,500 × 6/9			8,333
2008/09			
(1.7.07 – 30.6.08)	18,750	18,750	
(1.10.07 – 30.9.08)			
£12,500 + 3/12 × £20,000			17,500
2009/10			
(1.7.08 – 30.6.09)	20,000	20,000	20,000

(b) The overlap profits for both Roger and Brigitte are:

	Profits
	£
1.10.05 – 5.4.06	10,000
1.7.06 – 30.9.06	5,625
	15,625

Xavier's overlap profits are:

	£
1.10.07 – 5.4.08	8,333
1.7.08 – 30.9.08	5,000
	13,333

16 Wright and Wong

Text references. Chapter 5 on pensions and Chapter 11 on partnerships.

Top Tips. There is no limit on the total amount of contributions that can be made, but there is a limit on the amount qualifying for tax relief. The rules on pensions are new and hence topical for examination purposes.

Easy marks. Explaining the method of obtaining tax relief.

Marking scheme

			Marks
(a)	Any amount	1	
	Tax relief up to earnings	1	
	Splitting partnership profits	1	
	Maximum contributions	1	
			4
(b)	Basic rate relief	1	
	Higher rate relief	1	
	Sam's liability	1½	
	Geoff's liability	1½	
			5
(c)	No need for earnings	½	
	£3,600	½	1
			10

(a) **Maximum contributions**

Geoff and Sam can contribute any amount to their personal pension regardless of the level of their earnings. However tax relief will only be given for contributions up to their earnings for the tax year.

The partnership profits of £175,000 split 4:1 gives Geoff £140,000 profit and Sam £35,000. Therefore Geoff should contribute a maximum of £140,000 and Sam £35,000 to ensure that they receive tax relief on their contributions.

(b) **Tax relief**

Basic rate tax relief is given through the pension holder paying contributions net of 20%. This means that they pay only 80% of the gross payment into the pension. The government pays the extra 20% on their behalf to the pension provider.

Geoff will pay £112,000 (£140,000 × 80%) and Sam will pay £28,000 (£35,000 × 80%).

In addition Geoff will be entitled to higher rate relief. This is given by extending the basic rate band for the year by the amount of the gross contribution.

Tax relief is only available for the year in which the contribution is made.

Sam's tax liability

	£
Trading profit	35,000
Personal allowance	(6,475)
Taxable income	28,525
£28,525 at 20%	£5,705

Geoff's tax liability

	£
Trading profit	140,000
Personal allowance	(6,475)
Taxable income	133,525
£133,525 at 20% (note)	£26,705
Tax liability	

Note. Higher rate tax relief will be given by extending Geoff's basic rate tax band for 2009/10 to £177,400 (37,400 + 140,000).

(c) **No earnings**

There is no need for the individual to have earnings. A contribution of up to £3,600 per tax year may be made into a pension regardless of the level of earnings.

17 Amy Bwalya

Text references. Chapter 9 for sole trader basis period rules. Chapter 11 for partnerships.

Top tips. It is easier to get marks if you set out the rules as well as the dates – that way if you make a silly mistake the examiner can see that you know the rules.

Marking scheme

			Marks
(a)	2007/08	1	
	2008/09	2	
	2009/10	1	
	Overlap profits	1	
			5
(b)	6.4.09 – 31.12.09		
	Interest	1	
	Salary	1	
	Split balance	1	
	1.1.10 – 5.4.10		
	Interest	½	
	Salary	½	
	Split balance	½	
	Totals for each partner	½	
			5
(c)	2007/08	1	
	2008/09 year of change		
	9m to 30.6.08	½	
	Add 3m from prior year	1	
	2009/10 year of cessation		
	Profits not yet taxed	1½	
	Less: overlap from start	½	
	Less: overlap from change of accounting date	½	
			5
			15

(a) **Amy's trading profits**

	£	£
2007/08		
1 August 2007 – 5 April 2008		
$^{8}/_{10} \times$ £38,500		30,800
2008/09		
<12m so tax 1st 12 months of trade		
1 August 2007 – 31 July 2008		
10m to 31 May 2008	38,500	
+ $^{2}/_{12} \times$ £52,800	8,800	
		47,300
2009/10		
CYB y/e 31 May 2009		52,800
Overlap profits		
1 August 2007 – 5 April 2008	30,800	
1 June 2008 – 31 July 2008	8,800	
10 months		39,600

(b) **Cedric, Eli & Gordon's trading profits**

		Total	*C*	*E*	*G*
		£	£	£	£
6 April 2009 – 31 December 2009					
	Interest: $^9/_{12} \times$ capital @ 10%	8,250	3,000	5,250	
	Salary: $^9/_{12} \times$ 6,000	4,500		4,500	
	Balance: 60:40	54,750	32,850	21,900	
	Total: $^9/_{12} \times$ 90,000	67,500	35,850	31,650	
1 January 2010 – 5 April 2010					
	Interest: $^3/_{12} \times$ capital @ 10%	2,250		1,750	500
	Salary: $^3/_{12} \times$ 6,000	1,500		1,500	
	Balance: 70:30	18,750		13,125	5,625
	Total: $^3/_{12} \times$ 90,000	22,500		16,375	6,125
Total		90,000	35,850	48,025	6,125

Trading income assessments:

Cedric	£35,850
Eli	£48,025
Gordon	£6,125

(c) Ivan's trading profits

	£	£
2007/08		
CYB y/e 30 September 2007		36,000
2008/09		
Year of change (Tax 12m to new accounting date)		
9m to 30 June 2008	23,400	
+ 3m from previous yr: 3/12 × 36,000	9,000	
Total 12m		32,400
2009/10		
Year of cessation of trade		
Tax everything not already taxed		
Y/e 30 June 2009	28,800	
6m to 31 December 2009	10,800	
Less: overlap		
(i) From start of business	(4,500)	
(ii) From change of accounting date	(9,000)	
		26,100

18 Ae, Bee, Cae, Dee and Eu

Text references. Partnerships are covered in Chapter 11. Assessable trading income is dealt with in Chapter 9 and capital allowances are covered in Chapter 8.

Top tips. You must attempt each part of a multi-part question like this one to ensure you have a good chance of passing the exam.

Easy marks. Obtaining relief for overlap profits in part (c) was an easy mark.

Examiner's comments. This question was extremely well answered by the majority of candidates, many of whom scored maximum marks. One of the main problems in the answers of poorer candidates was not showing the appropriate tax years, thus losing a lot of marks throughout. The only common mistake was that in part (b) for the year of change, candidates often used an actual basis rather than the 12 months to the new accounting date.

Marking scheme

					Marks
(a)	2007/08			1½	
	2008/09			1	
	2009/10	– Ae and Bee		1	
		– Cae		1½	
					5
(b)	(i)	2007/08		1	
		2008/09		2	
		2009/10		1	
					4
	(ii)	Overlap profits			1
(c)	2010/11	– Assessment		1	
		– Capital allowances		½	
	2011/12	– Assessment		1	
		– Capital allowances		1½	
		– Relief for overlap profits		1	
					5
					15

(a) **Division of partnership profits for A, B and C**

	Total	*A*	*B*	*C*
	£	£	£	£
y/e 30.6.08	54,000	27,000	27,000	–
y/e 30.6.09	66,000	33,000	33,000	–
y/e 30.6.10	87,000	29,000	29,000	29,000
Then allocate to tax years:				
2007/08				
A and B – First year				
Actual basis 1.7.07 – 5.4.08				
9/12 x £27,000		20,250	20,250	–
2008/09				
A and B – Second year				
First 12 months y/e 30.6.08		27,000	27,000	–
2009/10				
A and B – Third year				
CYB y/e 30.6.09		33,000	33,000	
C – First year				
Actual basis 1.7.09 – 5.4.10				
9/12 x £29,000				21,750

(b) (i) **Change of accounting date for D**

		£	£
2007/08			
CYB y/e 5.4.08			32,880
2008/09 (year of change)			
Basis period is 12 months to new a/cting date – 31.7.08			
1.8.07 – 5.4.08			
8/12 x £32,880		21,920	
6.4.08 - 31.07.08		16,240	38,160
2009/10			
CYB y/e 31.7.10			54,120

(ii) Overlap profits

1.8.07 – 5.4.08	
8/12 x £32,880	21,920

(c) **Cessation for E**

	£	£
2010/11		
CYB y/e 30.6.10 Trading income	62,775	
Less: CAs (W)	(1,575)	61,200
2011/12		
Cessation p/e 30.09.11 Trading income	72,000	
Less: CAs (W)	(4,400)	
Overlap profits	(19,800)	47,800

Working

	Main pool	*Allowances*
	£	£
y/e 30.6.10		
TWDV b/f	7,875	
WDA @ 20%	(1,575)	1,575
TWDV c/f	6,300	
p/e 30.9.11		
Addition	2,400	
Disposal	(4,300)	
BA	4,400	4,400

19 Vera Old

Text references. Chapter 17.

Top tips. No payments on account are required for capital gains tax – simply one payment due on 31 January following the end of the tax year.

Easy marks. There were some basic administration issues tested in this question relating to payments on account.

Examiner's comments. In part (a) many candidates were unaware that payments on account are not required for capital gains tax, and there was a surprising lack of knowledge regarding due dates. Part (b) was generally badly answered, with few candidates appreciating the fact that payments on account should be reduced to the amount of income and Class 4 NIC payable for the current year. Part (c) was answered reasonably well, as was the first section of part (d). However, few candidates were aware of the circumstances in which a discovery assessment would be made.

Marking scheme

				Marks
(a)	Payments on account		1	
	Balancing repayment		1	
	Due dates		1	
				3
(b)	(i)	**Claim to reduce payments on account**		
		Payments on account	1	
		Revised liabilities	1	
				2
	(ii)	**Incorrect claim**		
		Interest	1	
		Penalty	1	
				2
(c)	Submission date		1	
	Fixed penalty		1	
	Daily penalty		1	
				3
(d)	(i)	**HMRC enquiry**		
		Notification date	1	
		Random basis	1	
		Income/Deductions	1	
				3
	(ii)	**Discovery assessment**		
		Under assessment/excessive relief	1	
		Conduct/no information	1	
				2
				15

(a) **Payment schedule**

Payments on account of 2009/10 will be based on Vera's 2008/09 income tax and Class 4 NIC payable so each payment on account will be £9,090 × 50% = £4,545.

1st payment on account due 31 January 2010 = £4,545
2nd payment on account due 31 July 2010 = £4,545

	£
Total payments on account	9,090
Total tax payable 2009/10	(6,060)
Repayment due	3,030

No set time limit for repayment to be made, but repayment supplement runs on overpaid amount.

(b) (i) **Claim to reduce payments on account**

Vera may claim to reduce her payments on account to reflect the reduction in her tax liability.

Actual tax liability @ 50% = £5,360 × 50% = £2,680

Each POA would therefore be £2,680, payable on 31 January 2010 and 31 July 2010 with a balancing payment for CGT of £700 due on 31 January 2011.

(ii) **Reduction to nil**

If Vera claimed to reduce her payments on account to nil, interest would be due on the underpaid amounts at each of the relevant dates.

Therefore she would be charged interest on the first payment of account of £2,680 from 31 January 2010 until date of payment and on the second payment of £2,680 from 31 July 2010 until date of payment.

In addition, a penalty of up to the amount of the tax due (£5,360) can be imposed if the claim is made fraudulently or negligently.

(c) **Submitting tax returns**

The latest date for submitting a tax return is 31 January following the tax year if the tax return is filed online, or 31 October following the end of the tax year if a paper return is filed. Therefore for 2009/10 the return is due on 31 January 2011 (online) or 31 October 2010 (paper).

If the return is submitted 3 months late, there will be an automatic £100 penalty. This will be reduced to the amount of tax outstanding, if any, at the submission date.

In addition, the First-tier Tribunal can direct that a maximum penalty of £60 per day be imposed where failure to deliver a tax return continues after notice of the direction has been given to the taxpayer.

(d) (i) **Enquiries**

HMRC have up to 12 months from the actual filing date (if filed by the due date) in which to open an enquiry into Vera's return.

HMRC may select tax returns at random for enquiry, although most returns will be selected for a reason.

Possible reasons could include that there is a suspicion that income has been under-declared or because deductions have been incorrectly claimed.

(ii) **Discovery assessments**

HMRC may make a discovery assessment if they discover that income or chargeable gains that ought to have been assessed have not been assessed, or that an assessment to tax is or has become insufficient, or that any relief that has been given is or has become excessive.

A discovery assessment may only be raised if there has been careless or deliberate understatement by the taxpayer or his agent or the Officer did not have information to make him aware of the loss of tax.

20 Pi Casso

Text references. Chapter 17 covers self assessment and payment by individuals.

Top tips. Take care to start with the correct tax year. You need to realise that if you are paying tax for 2009/10 that the payments on account will be based on the previous year 2008/09. Take care when stating payment dates. Take the time to start correctly and then be methodical.

Easy marks. Parts (c) and (d) required you to write out the rules for filing returns and enquiries. These should be easy marks.

Examiner's comments. Part (a) caused the most problems, with the vast majority of candidates not being able to demonstrate how payments are calculated and paid under the self-assessment system. Class 2 national insurance contributions were often incorrectly included, whilst few candidates appreciated that a claim to reduce payments on account was possible. In part (b) most candidates appreciated that interest would be due, but very few mentioned the potential penalty that could be charged. It was disappointing that the self-assessment tax return submission dates were often not know in part (c). The same comment applies to part (d). Candidates often gave a long list of reasons why HMRC could enquire into a return, but failed to mention that an enquiry might be on a completely random basis.

Marking scheme

			Marks
(a)	Second payment on account for 2008/09	2	
	Balancing payment for 2008/09	2	
	Claim to reduce payments on account	1	
	Payments on account for 2009/10	1	
	Balancing payment for 2009/10	1	
	First payment on account for 2010/11	1	
			8
(b)	Interest	1	
	Penalty	1	
			2
(c)	Paper based return	1	
	Return filed online	1	
			2
(d)	Notification date	1	
	Random bases	1	
	Income/Deductions	1	
			3
			15

(a)

Due date	*Tax year*	*Payment*	£
31 July 2009	2008/09	Second payment on account (N1)	2,240
31 January 2010	2008/09	Balancing payment (N2)	5,980
31 January 2010	2009/10	First payment on account (N3)	1,860
31 July 2010	2009/10	Second payment on account	1,860
31 January 2011	2009/10	Balancing payment (N4)	Nil
31 January 2011	2010/11	First payment on account (N5)	1,860

Notes

(1) The second payment on account for 2008/09 is based on Pi's income tax and Class 4 NIC liability for 2007/08. It is therefore £2,240 (3,240 + 1,240 = 4,480 x 50%).

(2) The balancing payment for 2008/09 is £5,980 (4,100 + 1,480 + 4,880 = 10,460 less the payments on account of 4,480 (2,240 x 2)).

(3) Pi will make a claim to reduce her total payments on account for 2009/10 to £3,720 (2,730 + 990), so each payment will be £1,860 (3,720 x 50%).

(4) The balancing payment for 2009/10 is £Nil (3,720 less the payments on account of 3,720 (1,860 x 2)).

(5) The first payment on account for 2010/11 is based on Pi's income tax and Class 4 NIC liability for 2009/10. It is therefore £1,860 (2,730 + 990 = 3,720 x 50%).

(b) (1) If Pi's payments on account for 2009/10 were reduced to nil, then she would be charged interest on the payments due of £1,860 from the relevant due date to the date of payment.

(2) A penalty of the difference between the reduced payment on account and the correct payment on account may be charged if the claim to reduce the payments on account to nil was made fraudulently or negligently.

(c) (1) Unless the return is issued after 31 July 2010, the latest date that Pi can submit a paper based self-assessment tax return for 2009/10 is 31 October 2010.

(2) Alternatively, Pi has until 31 January 2011 to file her self-assessment tax return for 2009/10 online.

(d) (1) If HMRC intend to enquire into Pi's 2009/10 tax return they will have to notify her within twelve months of the actual filing date if the return was delivered on or before the due date.

(2) HMRC have the right to enquire into the completeness and accuracy of any return and such an enquiry may be made on a completely random basis.

(3) However, enquiries are generally made because of a suspicion that income has been undeclared or because deductions have been incorrectly claimed.

21 Stephanie Wood

Text references. Chapters 13 to 16 deal with chargeable gains for individuals.

Top tips. There are only a few reliefs that are examinable in the F6 paper: rollover relief, gift relief, PPR relief and entrepreneurs' relief. Learn when they apply, for example, which assets the relief applies to, so that you can spot when they are available.

Marking scheme

			Marks
(a)	**Shares**		
	Share pool	3	
	Entrepreneurs' relief	2	
	Gain	1	
	House		
	Gain	½	
	PPR relief	2	
	Lettings relief	1½	
	Painting		
	Chattels rule	1½	
	Land		
	Part disposal	1	
	Gain	½	
	Vase		
	Chattels rule	1	
	Set off loss – current year	½	
	– brought forward	½	
	Annual exemption	1	
	CGT liability	1	
			17
(b)	Conditions for entrepreneurs' relief		3
			20

(a) **Summary of gains 2009/10**

	£
North Seaton Ltd Shares (W1)	7,259
96 Burnside Close (W2)	14,110
Land (W4)	17,417
Vase (W5)	4,600
Less current year loss (painting) (W3)	(2,280)
Less loss b/f	(1,833)
Chargeable gains	39,273
Less annual exemption	(10,100)
Taxable gains	29,173
CGT due £29,173 @ 18%	5,251

Workings

1 Share in North Seaton Ltd

Share pool

	Number	*Cost*
		£
January 1993 purchase	2,000	1,200
August 2000 purchase	1,000	1,400
	3,000	2,600
Rights issue December 2000 1:2 @ £2	1,500	3,000
	4,500	5,600
July 2009 sale	(3,000)	(3,733)
c/f	1,500	1,867

Gain	£
Proceeds	16,800
Less cost	(3,733)
Gain before relief	13,067
Less entrepreneurs' relief 4/9 × £13,067	(5,808)
Gain	7,259

2 *96 Burnside Close*

	£
Gross Proceeds	150,000
Less agents commission	(1,750)
	148,250
Less cost	(25,000)
Gain before relief	123,250
Less PPR relief (see below)	(69,140)
	54,110
Less lettings relief (see below)	(40,000)
Gain	14,110

PPR relief

	Occupation	*Absence*	*Letting*
Mar 1989 – Aug 1997	8½		
Sept 1997 – Feb 1999		1½	
Mar 1999 – Aug 2006			7½
Sept 2006 – Aug 2009*	3		
	11½	1½	7½

* Last 3 years of ownership

PPR relief: £123,250 × 11½ /20½ = £69,140

Lettings relief:

Lower of:

(a) PPR relief = £69,140
(b) Gain in let period, ie £123,250 × 7½/20½ = £45,091; or
(c) Maximum = £40,000

3 *Painting*

	£
Deemed proceeds	6,000
Less incidental costs of disposal	(280)
	5,720
Less cost	(8,000)
Allowable loss	(2,280)

4 *Part disposal of land*

	£
Proceeds	19,000
Less cost: £12,000 × $\frac{19,000}{19,000+125,000}$	(1,583)
Gain	17,417

5 *Vase*

	£
Sale proceeds	9,000
Less cost	(4,400)
Gain	4,600
Restricted to: 5/3 × (9,000 – 6,000)	5,000

ie take lower gain of £4,600

(b) Entrepreneurs' relief is available to reduce the gains on a material disposal of business assets.

The disposal of a shareholding in an individuals personal company qualifies as such a disposal. This requires the individual to own at least 5% of the ordinary share capital of the company and to be an employee of the company throughout the year prior to the disposal. The company must be a trading company.

North Seaton Ltd. Is a trading company and Stephanie is selling a 30% holding which she has owned since 2000, and she has worked for the company since July 2006. Therefore the criteria for entrepreneurs' relief is met.

22 Jack Chan

Text references. Chapters 13 to 16 on CGT.

Marking scheme

			Marks
(a)	**Goodwill**		
	Gift relief	2	
	Office		
	Gift relief	2	
	Warehouse		
	Gain	½	
	No gift relief	1	
	Car – exempt	1	
	Picture		
	Gain	½	
	Shares		
	Bonus issue	1	
	Gain	½	
	Plot of land		
	Part disposal	1	
	Gain	½	
	Set off loss	1	
	Annual exemption	1	
	CGT	1	
	Due date	1	
			14

(b)	Goodwill	1	
	Office	1	
	Entrepreneurs' relief	1	
	Gains on remaining assets (from (a))	1	
	Set off loss and annual exemption	1	
	CGT	1	
			6
			20

(a) **Total gains**

	£
Goodwill	50,000
Office	–
Warehouse	45,000
Car	–
Picture	20,000
Shares	8,000
Land	26,317
	149,317
Less loss brought forward	(6,100)
Total gains	143,217
Less annual exemption	(10,100)
Taxable gains	133,117

CGT	£
£133,117 × 18%	23,961
CGT due on 31 January 2011	

1 *Goodwill*

	£
Market value	60,000
Less cost	(Nil)
	60,000
Less gift relief	(10,000)
Gain immediately chargeable	50,000

The amount paid for the goodwill exceeds allowable cost by £50,000, so £50,000 is immediately chargeable.

2 *Office*

	£
Market value	130,000
Less cost	(110,000)
	20,000
Less gift relief	(20,000)
Gain immediately chargeable	–

As the amount paid for the office was less than the allowable cost, gift relief is available to defer the whole gain arising.

3 *Warehouse*

	£
Market value	140,000
Less cost	(95,000)
Gain chargeable	45,000

Gift relief is not available to defer a gain on a non-business asset.

4 *Motor car*

The motor car is an exempt asset, so no gain or loss arises.

5 *Picture*

	£
Proceeds	30,000
Less cost	(10,000)
Gain chargeable	20,000

6 *Shares*

	Number	*Cost* £
Purchase January 2003	10,000	8,000
Bonus issue: 1 for 5	2,000	–
	12,000	8,000

	£
Proceeds	16,000
Less cost	(8,000)
Gain chargeable	8,000

A bonus issue is an issue of free shares in proportion to an existing shareholding. As they are free shares, there is no cost – instead the original cost is allocated to all of the shares held.

7 *Land*

	£
Proceeds	45,600
Less cost £125,000 $\times \dfrac{45{,}600}{45{,}600+250{,}000}$	(19,283)
Gain chargeable	26,317

Where there is a part disposal of an asset the original cost must be apportioned between the part being sold and the remainder.

(b) **Gains on assets eligible for entrepreneurs' relief**

	£
Goodwill	60,000
Office	20,000
	80,000
Less entrepreneurs' relief 4/9 × £80,000	(35,556)
	44,444
Other gains (as before)	
Warehouse	45,000
Car	–
Picture	20,000
Shares	8,000
Land	26,317
	143,761
Less loss brought forward	(6,100)
Total gains	137,661
Less annual exemption	(10,100)
Taxable gains	127,561

CGT

£127,561 × 18%	22,961

Jack has used £80,000 of his £1,000,000 lifetime allowance for entrepreneurs' relief.

23 Peter Shaw

Text references. Chapters 13 to 16 on CGT.

Marking scheme

			Marks
(a)	**Building**		
	Gain	½	
	Takeover		
	Gain on cash received	1½	
	No gain on shares	1	
	Shares		
	Share pool	2	
	Gain	½	
	Vase		
	Gain	½	
	Chattels rule	1	
	Cartoon		
	Chattels rule	1	
	Plant		
	Chattels rule	1	
	Set off loss – current year	1	
	– brought forward	1	
	Annual exemption	1	
	CGT liabiilty	1	
			13
(b)	Conditions for entrepreneurs' relief	2	
	Calculation of entrepreneurs' relief	1	
	CGT	1	
	Effective rate of CGT	1	
			5
(c)	Lifetime allowance	1	
	Calculation of entrepreneurs' relief	1	
			2
			20

(a) Summary of gains:

	£
Building (W1)	400,000
Forum Follies plc (W2)	5,000
Dassau plc (W3)	7,100
Vase (W4(a))	3,333
Plant (W4(c))	3,200
Less loss on cartoon (W4(b))	(1,200)
Less losses b/f	(6,400)
Total gains	411,033
Less annual exemption	(10,100)
Taxable gain	400,933
CGT	
£400,933 @ 18%	72,168
CGT due 31 January 2011	

Workings

1 *Building*

	£
Proceeds	600,000
Less cost	(200,000)
Gain	400,000

2 *The takeover of Forum Follies plc*

The elements in the takeover consideration have the following values:

	£
Ordinary shares (30,000 × £3.00)	90,000
Cash	10,000
Total consideration received	100,000

A gain only arises on the date of the takeover in respect of the cash element of the takeover consideration. The gain in respect of the shares received is deferred until those shares are sold.

	£
Cash received (above)	10,000
Cost £50,000 × 10,000/100,000	(5,000)
Gain	5,000

3 *Dassau plc shares*

(i) Share pool

	Shares	*Cost*
		£
December 1985	1,000	2,000
Rights issue April 2001 1:2 @ £2	500	1,000
	1,500	3,000
Disposal November 2009	(1,200)	(2,400)
	300	600

		£
(ii)	Proceeds	9,500
	Less cost	(2,400)
	Gain	7,100

4 (a) *Ming vase*

	£
Proceeds	8,000
Allowable cost	(2,000)
Gain	6,000

Gain cannot exceed 5/3 × (8,000 – 6,000) = 3,333, ie £3,333

(b) *Leonardo cartoon*

	£
Proceeds (deemed)	6,000
Allowable cost	(7,200)
Allowable loss	(1,200)

(c) *Plant*

As the plant is sold at a gain, any capital allowances that may have been given will be clawed back by way of a balancing charge. Any profit is charged as a capital gain:

	£
Proceeds	8,500
Allowable cost	(5,300)
Gain	3,200

Gain cannot exceed 5/3 × £(8,500 – 6,000) = £4,167

Actual gain applies.

(b) The sale of shares in an trading company may be eligible for entrepreneurs' relief. In order to qualify Peter needed to have a 5% shareholding/voting rights and to have worked for Dot Ltd. All these conditions must be met for at least one year prior to the disposal.

Peter has met the conditions and the gain on sale will be as follows:

	£
Gain	900,000
Less entrepreneurs' relief	
£900,000 × 4/9	(400,000)
Taxable gain	500,000
CGT	
£500,000 × 18%	90,000

The effect of the entrepreneurs' relief is to reduce the effective rate of tax on the gain to 10% (£90,000/£900,000).

(c) Entrepreneurs' relief only applies to the first £1,000,000 of eligible gains (the lifetime allowance)

If the gain on the disposal had been £1,200,000, entrepreneurs' relief of 4/9 × £1,000,000 = £444,444 would have been available, leaving £755,556 taxable at 18%. This would result in a capital gains tax liability of £136,000.

24 Paul Opus

Text references. Chapters 13 to 16 for CGT.

Top tips. There is no reason why you cannot do the workings first and then feed the results into a summary table. Make sure that when you put your answer together that the summary is on top – followed by the workings.

Marking scheme

		Marks
Symphony Ltd	– Proceeds	½
	– Cost	1
Concerto plc	– Proceeds	2
	– Cost	½
Motor car		1
Antique vase		2
Warehouse	– Part disposal	1
	– Proceeds	1
	– Cost	2
House	– Proceeds	½
	– Cost	½
	– Exemption	2
Land	– Proceeds	½
	– Cost	2
Holiday cottage		1½
Annual exemption		½
Capital gains tax		1
Due date		½
		20

Paul Opus – 2009/10 CGT Liability

Summary

	£
Symphony Ltd shares (W1)	9,800
Concerto plc shares (W2)	37,100
Car – exempt	–
Vase (W4)	4,000
Warehouse (W5)	25,465
House (W6)	7,800
Land (W7)	117,800
Cottage (W8)	23,400
Total gains	225,365
Less annual exemption	(10,100)
Taxable gains	215,265

CGT	
£215,265 @ 18%	38,748
CGT due 31 January 2011	

Workings

1 *Symphony Ltd shares*

	£
Proceeds	23,600
Less cost £110,400 × 5,000/40,000	(13,800)
Gain	9,800

2 *Concerto Plc shares*

	£
Proceeds (W3) £5.11 × 10,000	51,100
Less: cost	(14,000)
Gain	37,100

3 *Market value of Concerto Plc shares*

As this is a gift, the market value is used as the proceeds.

For quoted shares this is the lower of the:

(i) Quarter up:

[¼ × £(5.18 – 5.10)] + 5.10 = 5.12

(ii) Average:

£(5.00 + 5.22) / 2 = 5.11, ie £5.11 per share

4 *Vase*

This is a non-wasting chattel and a restriction therefore applies:

	£
Proceeds	8,400
Less cost	(4,150)
Gain	4,250

Gain cannot exceed:

5/3 × £(8,400 – 6,000) = 4,000, ie £4,000

5 *Warehouse*

A part disposal calculation is needed because £(42,000 – 35,000) = £7,000 of the insurance money is not used to restore the asset.

	£
Compensation received	42,000
Less cost £50,000 × $\frac{42,000}{42,000 + 85,000}$	(16,535)
Gain	25,465

6 *House*

Total ownership period: 1.4.03 – 31.12.09 = 81 months

PPR period:

Actual occupation 1 April 2003 to 30 June 2006	= 39 months
Last 36 months	= 36 months
	= 75 months

	£
Proceeds	220,000
Less cost	(114,700)
	105,300
Less PPR relief	
75/81 × £105,300	(97,500)
Gain	7,800

7 *Part disposal of land*

	£
Proceeds	285,000
Less cost £220,000 × $\frac{285,000}{285,000 + 90,000}$	(167,200)
Gain	117,800

8 *Cottage*

Spouse transfer takes place at no gain, no loss therefore Paul takes on his wife's original base cost.

	£
Proceeds	125,000
Less cost	(101,600)
Gain	23,400

25 David and Angela Brook

Text references. Chapter 13 deals with general computation of chargeable gains. Chattels and Principal Private Residence relief are in Chapter 14. Shares are covered in Chapter 16.

Top tips. Work through the disposals in order and then bring them together in a summary for each taxpayer. Don't forget that you need to compute the capital gains tax liabilities, not just state the taxable gains.

Easy marks. The calculation of the gains before applying reliefs should have gained easy marks. Use of the annual exemption and calculation of the tax payable were also straightforward.

Examiner's comments. Although there were some very good answers to this question from well prepared candidates, it caused problems for many and was often the reason that they failed to achieve a pass mark. One particular problem was that a lot of time was often spent performing unnecessary calculations for the exempt assets, and then not having sufficient time to deal with the chargeable assets. Many candidates therefore did a lot of work for this question but scored few marks. The jointly owned property caused particular difficulty. Only a few candidates correctly calculated the principal private residence exemption. Some candidates did not allocate the resulting chargeable gain between the couple but instead deducted an annual allowance and calculated a separate tax liability.

Marking scheme

		Marks
Jointly owned property		
Car – exempt		½
House:	Proceeds	½
	Cost	½
	PPR exemption period	2½
	Calculation of exemption	1
David Brook		
Antique table – exempt		1
Bend Ltd – no gain, no loss disposal		½
Galatico plc:	Deemed proceeds	1
	Cost	2
	Rights issue	1
Half share in house		½
Annual exemption		½
Capital gains tax		½
Angela Brook		
Antique clock – marginal relief		2
Bend Ltd:	Proceeds	½
	Cost	1
Business	– shop	1
	– goodwill	1
	– entrepreneurs' relief	1
Half share in house		½
Annual exemption		½
Capital gains tax		½
		20

Jointly owned property

Car

Exempt asset

House

	£
Proceeds	393,900
Less: cost	(86,000)
Less: PPR relief (W1)	307,900
$£307,900 \times \frac{219}{252}$	(267,580)
Gain	40,320

Workings.

1

		Exempt months	*Chargeable months*
1.10.88 – 31.3.92	Actual occupation	42	
1.4.92 – 31.12.95	Up to 4 years working elsewhere	45	
1.1.96 – 31.12.03	Actual occupation	96	
1.1.04 – 30.9.06	Not occupied		33
1.10.06 – 30.9.09	Last 3 years	36	
Total months		219	33

David Brook – capital gains tax payable

Antique table

Exempt gain – non-wasting chattel sold for £6,000 or less

Bend Ltd

No gain, no loss transfer to spouse

Base cost for Angela £48,000

Galatico plc shares

Share pool

	Number	*Cost*
		£
15.6.07 Purchase	8,000	17,600
24.8.07 Purchase	12,000	21,600
	20,000	39,200
10.7.08 Rights issue 1:4 @ £2	5,000	10,000
	25,000	49,200
14.2.10 Disposal	(15,000)	(29,520)
c/f	10,000	19,680

	£
Market value 15,000 × £2.95 (W2)	44,250
Less: cost	(29,520)
Gain	14,730

Note

The shares in Galatico plc cannot qualify for entrepreneurs' relief because the company is not David's personal company.

2 Quoted share valuation

£2.90 + ¼ £(3.10 – 2.90)	£2.95

	£
½ share in house	20,160
Galactico plc	14,730
	34,890
Less: annual exemption	(10,100)
Taxable gains	24,790

Capital gains tax for David

£24,790 × 18%	4,462

Angela Brook – capital gains tax payable

Antique clock

Non-wasting chattel subject to marginal relief

	£
Proceeds	7,200
Less: cost	(3,700)
Gain	3,500
Gain cannot exceed £(7,200 – 6,000) = £1,200 × 5/3	2,000

Bend Ltd shares

		£
Proceeds		62,400
Less: cost		
$£48,000 \times \dfrac{15,000}{20,000}$		(36,000)
Gain		26,400

Note

The shares in Bend Ltd cannot qualify for entrepreneurs' relief because they are in an investment company.

Business

	£	£
Shop		
Proceeds	180,000	
Less: cost	(102,000)	
		78,000
Goodwill		
Proceeds	40,000	
Less: cost	–	
		40,000
		118,000
Less: entrepreneurs' relief 4/9 × £118,000		(52,444)
Gain left in charge		65,556

Summary

	£
Bend Ltd shares	26,400
½ share in house	20,160
Antique clock	2,000
Business	65,556
	114,116
Less: annual exemption	(10,100)
Taxable gains	104,016
Capital gains tax for Angela	
£104,016 × 18%	18,723

26 Wilson Biazma

Text references. Chapters 13 to 16 deal with the computation of chargeable gains.

Top tips. This question tests several different CGT reliefs. Remember to calculate the gain first, before considering the availability of any reliefs.

Easy marks. The calculation of the five gains were easy marks. Part (a) required the statement of the residence rules. These also should have been easy marks.

Examiner's comments. Part (a) was reasonably well answered, although only a few candidates appreciated that ordinary residence is a matter of where a person habitually resides. Many candidates missed an easy mark by not stating that people who are resident or ordinarily resident will be liable to capital gains tax. Part (b) was also reasonably well answered. The disposal that caused the most problems was the incorporation of the business, with many candidates not appreciating that the gain was simply based on the value of the goodwill transferred.

Marking scheme

			Marks
(a)	183 day rule	1	
	91 day rule	1	
	Ordinary residence	1	
	Liability to CGT	1	
			4
(b)	Summary	1	
	Office building		
	Proceeds	½	
	Cost	½	
	Rollover relief	1½	
	Incorporation		
	Proceeds	½	
	Cost	½	
	Incorporation relief	1½	
	Ordinary shares in Gandua Ltd		
	Proceeds	½	
	Cost	½	
	Gift relief	1½	
	Antique vase		
	Proceeds	½	
	Cost	½	
	Compensation relief	1½	
	Land		
	Proceeds	½	
	Cost	2	
	Ordinary shares in WJD Ltd		
	Proceeds		
	Cost	½	
	Entrepreneurs' relief	½	
		1½	16
			20

(a) (1) A person will be resident in the UK during a tax year if they are present in the UK for 183 days or more.

(2) A person will also be treated as resident if they visit the UK regularly, with visits averaging 91 days or more a tax year over a period of four or more consecutive tax years.

(3) Ordinary residence is not precisely defined, but a person will normally be ordinarily resident in the UK if this is where they habitually reside.

(4) A person is liable to capital gains tax (CGT) on the disposal of assets during any tax year in which they are either resident or ordinarily resident in the UK.

(b) **Wilson Biazma – Chargeable gains 2009/10**

	£
Office building (W1)	102,000
Incorporation (W2)	36,000
Ordinary shares in Gandua Ltd (W3)	8,000
Antique vase (W4)	nil
Land (W5)	17,000
Chargeable gains	163,000

Workings

1 *Office building*

	£
Disposal proceeds	246,000
Less cost	(144,000)
Gain	102,000

Rollover relief is not available because the amount not reinvested of £110,000 (246,000 – 136,000) is greater than the capital gain of £102,000.

2 *Incorporation*

	£
Proceeds (goodwill)	120,000
Less cost	(Nil)
Gain	120,000
Less incorporation relief £120,000 $\times \dfrac{140,000}{140,000+60,000}$	(84,000)
Gain left in charge	36,000

3 *Ordinary shares in Gandua Ltd*

	£
Proceeds (MV)	160,000
Less cost	(112,000)
Gain	48,000
Less gift relief £48,000 $\times \dfrac{150,000}{180,000}$	(40,000)
Gain left in charge	8,000

4 *Antique vase*

	£
Proceeds (compensation)	68,000
Less cost	(49,000)
Gain	19,000
Less relief for reinvestment (all proceeds reinvested)	(19,000)
Gain left in charge	Nil

5 *Land*

	£
Proceeds	85,000
Less cost £120,000 $\times \dfrac{85,000}{85,000+65,000}$	(68,000)
Gain	17,000

Diana Biazama - Chargeable gains 2009/10

Ordinary shares in WJD Ltd

	£
Disposal proceeds 6,000 $\times$ £13	78,000
Less cost 6,000 x £1	(6,000)
Gain	72,000
Less Entrepreneurs' relief £72,000 $\times$ 4/9	(32,000)
Gain left in charge	40,000

The disposal is eligible for entrepreneurs' relief as Diana owned at least 5% of the shares in WJD Ltd (a trading company) and had worked for WJD Ltd for at least one year before the disposal.

27 Nim and Mae

Text references. Chapters 13 to 16 deal with the computation of chargeable gains.

Top tips. Questions may be set about spouses or civil partners. Transfers between these are on a no gain/ no loss basis.

Easy marks. Remembering to deduct the annual exemption for each taxpayer and applying the rate of tax should have been 2 easy marks.

Examiner's comments. For the husband, quite a few candidates surprisingly had problems with the valuation rules for quoted shares. It was also not always appreciated that the transfer between spouses and the sale of the UK Government securities were respectively at no gain, no loss, and exempt. Candidates thus wasted time performing unnecessary calculations. Many candidates had difficulty with the cost of the quoted shares disposed of, and they incorrectly included the purchase within the following 30 days as part of the share pool. The restriction of the brought forward capital losses so that chargeable gains were reduced to the amount of the annual exemption was often missed. For the wife, many candidates treated the private portion of the principal private residence as taxable rather than the business portion. The investment property included within the disposal of the business was sometimes treated as exempt from CGT and sometimes entrepreneurs' relief was claimed in respect of it. Only a minority of candidates correctly calculate the cost of the wasting asset.

Marking scheme

		Marks
Nim Lom		
Kapook plc	Deemed proceeds	2
	Cost	1
	Share pool	2
Jooba Ltd		1
Antique table		1½
UK Government securities		½
Capital losses brought forward		1
Annual exemption		½
Capital losses carried forward		½
Mae Lom		
Jooba Ltd	Proceeds	½
	Cost	1
House	Proceeds	½
	Cost	½
	Exemption	1
Business	Goodwill	½
	Office building	½
	Entrepreneurs' relief	1
	Investment property	1
Copyright	Proceeds	½
	Cost	1½
Capital losses brought forward		½
Annual exemption		½
Capital gains tax		½
		20

Nim Lom – CGT liability 2009/10

	£	£
Ordinary shares in Kapook plc		
Deemed proceeds (10,000 × £3.70) (W1)	37,000	
Less: cost (W2)	(23,400)	
		13,600
Ordinary shares in Jooba Ltd (no gain, no loss transfer between spouses)		–
Antique table (W3)		3,500
UK Government securities (exempt)		–
Chargeable gains		17,100
Less: losses b/f (W4)		(7,000)
Net chargeable gains		10,100
Less: annual exemption		(10,100)
Taxable gains		Nil

Nim therefore has capital losses carried forward of £(16,700 – 7,000) = £9,700.

Workings

1 The shares in Kapook plc are valued at the lower of:

(a) $370 + \frac{1}{4} \times (390 - 370) = 375$;

(b) $\frac{360 + 380}{2} = 370$

ie 370.

2 The disposal is first matched against the purchase on 24 May 2009 (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, £23,400 (5,800 + 17,600).

Share pool	*No. of shares*	*Cost*
	£	£
Purchase 19 February 2001	8,000	16,200
Purchase 6 June 2006	6,000	14,600
	14,000	30,800
Disposal 20 May 2009		
£30,800 x 8,000/14,000	(8,000)	(17,600)
Balance c/f	6,000	13,200

3 The antique table is a non-wasting chattel.

	£
Proceeds	8,700
Less cost	(5,200)
Gain	3,500

The maximum gain is 5/3 × £(8,700 – 6,000) = £4,500

The chargeable gain is the lower of £3,500 and £4,500, so it is £3,500.

4 The set off of the brought forward capital losses is restricted to £7,000 (17,100 – 10,100) so that chargeable gains are reduced to the amount of the annual exemption.

Mae Lom – CGT liability 2009/10

	£	£
Ordinary shares in Jooba Ltd		
Disposal proceeds	30,400	
Less: cost £16,000 × 2,000/5,000 (N1)	(6,400)	
		24,000
House		
Disposal proceeds	186,000	
Less: cost	(122,000)	
	64,000	
Less: principal private residence exemption (W)	(56,000)	
		8,000
Business		
Goodwill	80,000	
Freehold office building	136,000	
	216,000	
Less: entrepreneurs' relief £216,000 × 4/9	(96,000)	
		120,000
Investment property (N2)		34,000
Copyright		
Disposal proceeds	9,600	
Less: cost £10,000 × 15/20 (N3)	(7,500)	
		2,100
Chargeable gains		188,100
Less: losses b/f		(8,500)
Net chargeable gains		179,600
Less: annual exemption		(10,100)
Taxable gains		169,500
Capital gains tax £169,500 @ 18%		30,510

Working

One of the eight rooms in Mae's house was always used exclusively for business purposes, so the principal private residence exemption is restricted to £(64,000 × 7/8) = £56,000.

Notes

1 Nim's original cost is used in calculating the capital gain on the disposal of the shares in Jooba Ltd because the transfer between the spouses was on a no gain/no loss basis.

2 The investment property does not qualify for entrepreneurs' relief because it was never used for business purposes.

3 The copyright is a wasting asset. The cost of £10,000 must therefore be depreciated based on an unexpired life of 20 years at the date of acquisition and an unexpired life of 15 years at the date of disposal.

28 Arable Ltd

Text references. Chapters 18 and 19 for calculation of PCTCT and CT. Property income is also covered in Chapter 18. Chapter 20 looks at gains. Chapter 24 covers the administration of Corporation Tax.

Top tips. Be especially careful when dealing with a short accounting period such as in this question.

For short accounting periods the AIA and WDAs are pro-rated but FYAs are not. Similarly CT limits must also be pro-rated. In addition take care with the associated companies as this affects the Upper and Lower CT limits.

Easy marks. The capital allowances (IBAs and Plant and machinery) should have yielded good marks. If you learn a proforma to calculate capital allowances you will find it easy to obtain marks for such computations. The 3 marks at the end for basic CT admin should have been very simple to achieve.

Examiner's comments. This question was generally very well answered although the lease premium aspect caused problems. The calculation of the capital gain also confused many candidates, since they applied the matching rules applying to individuals. A worrying number of candidates were unaware of the relevant dates in part (b) and very few candidates were aware of the possibility of an excessive tax claim.

Marking scheme

					Marks
(a)	Trading income			½	
	IBA	– Land		½	
		– Showroom		1½	
		– Eligible expenditure		1½	
		– Allowance		1½	
	PM	– Main pool		2	
		– AIA		2	
		– 40% FYA		1	
		– 100% FYA		1	
		– Special rate pool		1	
	Lease premium	– assessable		2	
		– deduction		2	
	Property business income		– Premium	1	
			– Relief	1	
			– Rent	1	
	Interest income				
	Capital gain	– Purchases		½	
		– Indexation		2	
		– Disposal		½	
		– Gain		1	
	FII			1	
	CT			2½	
					27
(b)	Due date			1	
	Amendment			1	
	Excessive tax claim			1	
					3
					30

(a) **Arable Ltd – corporation tax**

	£	£
Trading income		284,600
Less IBA (W1)	3,090	
CAs (W2)	61,870	
Deduction for lease premium (W3)	2,700	(67,660)
Taxable trading income		216,940
Property business income (W4)		31,700
Interest income (accruals basis)		9,000
Capital gain (W5)		25,832
PCTCT		283,472
FII £18,000 × 100/90		20,000
'Profits'		303,472

Small companies' limits

Arable Ltd has two associated companies.

Lower limit

$$\frac{300{,}000}{3} \times \frac{9}{12} = £75{,}000$$

Upper limit

$$\frac{1{,}500{,}000}{3} \times \frac{9}{12} = £375{,}000$$

Corporation tax

	£
PCTCT × 28%	79,372
Less small companies' marginal relief	
$£(375{,}000 - 303{,}472) \times (283{,}472/303{,}472) \times \frac{7}{400}$	(1,169)
Corporation tax due	78,203

Workings

1 *Industrial buildings allowance*

Allowable expenditure:

	£
Site preparation	14,000
Professional fees	6,000
Drawing office	40,000
Factory	146,000
	206,000

Note. Showroom does not qualify as cost exceeds 25% of £280,000 (206,000 + 74,000). Land never qualifies for IBAs.

WDA (9 month period) 9/12 × 2% × £206,000 = £3,090

2 *Capital allowances on plant and machinery*

	AIA/FYA	FYA @ 100%	Main pool	Special rate pool	Allowances
	£	£	£		£
Additions qualifying for AIA/40% FYA					
15.4.09 Machinery	29,150				
18.4.09 Alterations	3,700				
20.5.09 Lorry	19,000				
29.10.09 Computer	4,400				
	56,250				
AIA £50,000 × 9/12	(37,500)				37,500
	18,750				
FYA @ 40%	(7,500)				7,500
	11,250				
Additions not qualifying for AIA/FYA					
12.6.09 Car			11,200		
14.6.09 Car				29,200	
WDA @ 20% × 9/12			(1,680)		1,680
WDA @ 10% × 9/12				(2,190)	2,190
Additions qualifying for 100% FYA					
17.6.09 Car		13,000			
FYA @ 100%		(13,000)			13,000
Transfer balance to pool	(11,250)		11,250		
TWDV c/f			20,770	27,010	
Allowances					61,870

3 *Deduction for lease premium*

Available in relation to property number 1 as used for business purposes.

Rent treated as received by landlord:

	£
Premium	75,000
Less £75,000 × 2% × (15-1)	(21,000)
	54,000

÷ 15 (number of years of lease) = £3,600

Deductible for 9 month period £3,600 × 9/12 = £2,700

4 *Property business income*

	£
Premium received for Property No. 2	50,000
Less £50,000 × 2% × (5 – 1)	(4,000)
	46,000
Less relief for premium on head lease £54,000 (W3) × 5/15	(18,000)
	28,000
Add rent receivable to 31 December 2009 £14,800 × 3/12	3,700
Property business income	31,700

5 *Capital gains*

	No.	*Cost*	*Indexed cost*
		£	£
10 June 2007 Acquisition	15,000	12,000	12,000
20 August 2007 Indexed rise			
(207.3 - 207.3)/207.3 × £12,000			0
Acquisition	5,000	11,250	11,250
	20,000	23,250	23,250
5 December 2009 Indexed rise			
(207.2 - 207.3)/207.3 × £23,250			0
			23,250
Disposal	(10,000)	(11,625)	(11,625)
Carried forward	10,000	11,625	11,625

Gain

	£
Proceeds	37,457
Less cost	(11,625)
Unindexed gain	25,832
Less indexation £(11,625 – 11,625)	(0)
Indexed gain	25,832

(b) Arable Ltd must submit its corporation tax return by 31 December 2010 (12 months from the end of the accounting period).

Arable Ltd may amend its return at any time before 31 December 2011 (12 months from the filing date).

If Arable Ltd believed it has paid excessive tax because of an error in the return, a claim may be made before 31 December 2014 (four years from the end of the accounting period).

29 Scuba Ltd

Text references. Calculation of taxable profits, PCTCT and CT in Chapters 18 and 19. Chapter 8 for IBAs and capital allowances. Administration in Chapter 24. VAT in Chapters 25 and 26.

Top tips. When dealing with an adjustment to profits, make a brief note to the examiner about why you have treated an item in a particular way. Ensure that you comment on every item in the question to obtain maximum marks.

Most of the calculations are fairly straightforward with perhaps the lease premium being the most challenging and only possible if you have studied this topic.

The most likely trap is not reading the question carefully and missing some information. It is good to mark the question in some way when you have dealt with each item (eg tick off or highlight each item dealt with).

With plant and machinery be careful with dates of purchase.

Easy marks. The adjustment to profit was straightforward, as was the calculation of corporation tax.

Once again using a proforma for

- adjustments of profit
- capital allowances
- calculation of PCTCT

would have helped gain marks. You can slot the appropriate item into the proformas as you read through the question in many cases.

Marking scheme

				Marks
(a)	(i)	Trading profit		
		Operating profit	½	
		Depreciation	½	
		Entertaining (½ each)	1	
		Gifts to customers (½ each)	1	
		Lease premium – Assessable amount	1½	
		– Deduction	1½	
		IBA – Land	½	
		– General offices	1	
		– Eligible expenditure	1½	
		– Allowance	1	
		P & M – Pool	2½	
		– Motor car	1½	
		– AIA	1	
				15
	(ii)	Corporation tax computation		
		Trading profit	½	
		Property business profit – Rent receivable	1	
		– Expenses	1	
		Interest	½	
		Corporation tax	1	
				4
(b)	(i)	Default surcharge		
		Quarter ended 30 September 2007	1	
		Quarter ended 31 December 2007	1	
		Quarter ended 30 June 2008	2	
		Quarter ended 30 September 2008	1	
		Extension of surcharge period	1	
		Four consecutive VAT returns on time	1	
		Quarter ended 31 December 2009	1	
				8
	(ii)	Errors on VAT return		
		Limits	2	
		Notify in writing	1	
				3
				30

(a) (i) **Scuba Ltd – tax adjusted trading profit year ended 31 March 2010**

	£	£
Profit before tax		170,400
Add depreciation	45,200	
customer entertaining (N1)	7,050	
employee entertaining (N1)	0	
gifts to customers: diaries (N2)	0	
gifts to customers: food hampers (N2)	1,600	
		53,850
Less lease premium (W1)		(1,860)
Adjusted profits		222,390
Less IBAs (W2)		(3,440)
Capital allowances (W3)		(38,460)
Taxable trading profit		180,490

Notes

(1) Customer entertaining is never an allowable expense. Staff entertaining is allowable.

(2) Expenditure on gifts to customers is only allowable if the gift (i) costs less than £50 per item, (ii) is not food, tobacco, alcohol or vouchers, and (iii) clearly advertises the business's name.

(ii) **CT liability year ended 31 March 2010**

	£
Taxable trading profit (above)	180,490
Property income (W4)	11,570
Interest (W5)	430
PCTCT	192,490

Small company (profits < £300,000)

		£
CT liability		
FY 2009	£192,490 × 21%	40,423

Workings

1 *Lease premium*

	£
Premium (P)	80,000
Less 2% × (n – 1) × P	
2% × (20 – 1) × 80,000	(30,400)
Taxable as Landlord's income	49,600

This amount is deductible for the company over the life of the lease:

$$\frac{£49{,}600}{20} = £2{,}480$$

Allowable on an accruals basis ie 1 July 2009 to 31 March 2010 = 9/12 × £2,480 = £1,860

2 *IBAs*

	£
Allowable cost	
Expenditure	240,000
Less land	(68,000)
Total cost	172,000

Expenditure on offices only allowable if represents < 25% × total cost:

$$\frac{40{,}000}{172{,}000} = 23\% \text{ therefore allowable}$$

IBA: 2% × £172,000 = £3,440

3 *Capital Allowances*

	AIA	Main Pool	Exp. car	Allowances
	£	£	£	£
TWDV b/f		47,200	22,400	
Additions qualifying for AIA				
3.4.09 Machinery	18,020			
29.5.09 Computer	1,100			
18.8.09 Machinery	7,300			
	26,420			
AIA	(26,420)			26,420
Additions not qualifying for AIA				
4.7.09 Car		10,400		
Disposals				
15.11.09 Lorry		(12,400)		
		45,200		
WDA @ 20%		(9,040)		9,040
WDA £3,000 max			(3,000)	3,000
TWDV c/f		36,160	19,400	
Allowances				38,460

4 *Property income*

1 August 2009 to 31 March 2010 = 8m

	£
£7,200 × 4 = £28,800 × 8/12 =	19,200
Less expenses:	
decorating	(6,200)
advertising	(1,430)
Property income	11,570

5 *Interest*

Non-trading loan relationship therefore £430 is taxable as non-trading interest receivable.

(b) (i) **Default surcharge**

	Quarter ended	Circumstance	Default surcharge consequence
1	30 September 2007	Late return and payment	Surcharge liability notice (SLN) issued, ending 30 September 2008. As this is the first default there is no surcharge.
2	31 December 2007	Late return and payment	SLN extended to 31 December 2008 Surcharge @ 2% = £644
3	31 March 2008	On time	SLN remains in place until 31 December 2008
4	30 June 2008	Late return and payment	SLN extended to 30 June 2009 Surcharge @ 5% = £170 Not collected as < £400
5	30 September 2008	Late return but no VAT due	SLN extended to 30 September 2009 No surcharge as no VAT due
6	31 December 2008 to 30 September 2009	On time	As returns and payments have been on time until the end of the SLN period, the SLN record is wiped clean
7	31 December 2009	Late return and payment	New SLN issued to 31 December 2010 As this is the first default there is no surcharge.
8	31 March 2010	On time	SLN remains in place until 31 December 2010

(ii) Errors can be connected on the next VAT return if they do not exceed the greater of:

- £10,000 (under-declaration minus over-declaration)
- 1% of VAT turnover for the return period (maximum £50,000)

Other errors must be notified to HMRC in writing (eg by letter).

30 Wireless Ltd

Text references. Chapters 18 and 19 for profits chargeable to corporation tax and corporation tax liability calculations. Chapter 23 deals with the overseas aspects Chapters 25 and 26 deal with VAT.

Top tips. State the VAT registration limits and dates precisely.

Easy marks. The VAT parts should be straightforward for those who have learnt the registration, rules and the details needed on a VAT invoice.

Examiner's comments. The first section of part (a) caused no problems for well prepared candidates. The second section was also well answered, although many candidates were unsure as to what adjustment was necessary for the director's remuneration, and the related national insurance contributions, that had not been taken into account when preparing the draft accounts. However, the VAT aspects in part (b) were not so well answered. Few candidates appreciated when VAT registration would have been necessary, with many candidates basing their answer on the future test rather than the historical test. As regards voluntary VAT registration, few candidates appreciated that the company's revenue would not have altered given that all its customers were VAT businesses. Very few candidates could provide more than two or three of the six pieces of additional information that the company needed to show on its sales invoices in order for them to be valid for VAT purposes.

Marking scheme

				Marks
(a)	(i)	End of preceding accounting period	1	
		Commencement of trading	1	2
	(ii)	Trading profit	½	
		Director's remuneration	1	
		Employer's Class 1 NIC	1	
		P & M – Pool	1	
		– AIA	2	
		– WDA	1	
		IBA – Land	½	
		– General offices	1	
		– Eligible expenditure	1	
		– Allowance	1½	
		Loan interest	½	
		Gift aid donation	1	
				12
(b)	(i)	Registration limit	1	
		February 2010	1	
		Notification	1	
		Date of registration	1	
				4

(ii)	**Goods**		
	Business purposes/Not sold or consumed	1½	
	Three year limit	1	
	Services		
	Business purposes	½	
	Six month limit	1	
			4
(iii)	Output VAT	1	
	Revenue	1	
	Input VAT	1	
			3
(iv)	½ for each point made		3
			28

(a) (i) (1) An accounting period will normally start immediately after the end of the preceding accounting period.

(2) An accounting period will also start when a company commences to trade or when its profits otherwise become liable to corporation tax.

(ii) **Wireless Ltd – Profits chargeable to corporation tax for the period ended 31 March 2010**

		£	£
Trading profit			76,768
Less: Director's remuneration £(23,000 + 2,212) (N)		25,212	
Capital allowances	P & M (W1)	19,360	
	IBA (W2)	1,960	
			(46,532)
			30,236
Loan interest			1,110
			31,346
Gift aid donation			(1,800)
Profits chargeable to corporation tax			29,546

Note

The director's remuneration can be deducted as it was paid within nine months of the end of the period of account. The employer's Class 1 NIC will be £2,212 (23,000 – 5,715 = 17,285 x 12.8%).

Workings

1 Plant and Machinery

	AIA	*Main pool*	*Allowances*
	£	£	£
Additions qualifying for AIA			
20.9.09 Office equipment (treated as 1.10.09)	3,400		
5.10.09 Machinery	10,200		
11.10.09 Alterations	4,700		
	18,300		
AIA (£50,000 x 6/12 = £25,000 max)	(18,300)		18,300
Addition not qualifying for AIA			
18.2.10 Car		10,600	
WDA @ 20% x 6/12		(1,060)	1,060
TWDV c/f		9,540	
Allowances			19,360

2 Industrial buildings allowance

	£
Site preparation	8,000
Canteen for employees	22,000
Factory	68,000
Eligible expenditure	98,000
WDA £98,000 x 2%	1,960

Note. The general offices do not qualify as they are more than 25% of the cost.

(b) (i) (1) Wireless Ltd would have been liable to compulsory VAT registration when its taxable supplies during any 12-month period exceeded £68,000.

(2) This happened on 28 February 2010 when taxable supplies amounted to £87,100.

(3) Wireless Ltd would have had to notify HMRC by 30 March 2010, being 30 days after the end of the period.

(4) The company will have been registered from 1 April 2010 or from an agreed earlier date.

(ii) Input VAT on goods purchased prior to registration

(1) The goods must have been acquired for business purposes and not be sold or consumed prior to registration.

(2) The goods were acquired in the four years prior to VAT registration.

Input VAT on services supplied prior to registration

(1) The services must have been supplied for business purposes.
(2) The services were supplied in the six months prior to VAT registration.

(iii) (1) Wireless Ltd's sales are all to VAT registered businesses, so output VAT can be passed on to customers.

(2) The company's revenue would therefore not have altered if it had registered for VAT on 1 October 2009.

(3) However, registering for VAT on 1 October 2009 would have allowed all input VAT incurred from that date to be recovered.

(iv) The following information is required:

(1) The suppliers name, address and registration number.
(2) The date of issue, tax point and an invoice number.
(3) The name and address of the customer.
(4) Description of goods, including quantity, unit price, rate of VAT and VAT exclusive cost.
(5) Total invoice price excluding VAT.
(6) Each VAT rate and total VAT

31 Do-Not-Panic Ltd

Text references. Chapter 18 and 19 cover computing profits chargeable to corporation tax and the corporation tax liability.

Top tips. Split out the long period correctly into the two accounting periods. Remember it is always the first twelve months and then the balance (in this case three months).

Easy marks. Allocating the figures between the two accounting periods should be straightforward.

Examiner's comments. Depending on whether candidates appreciated that the period of account needed to be split into a twelve-month period and a three-month period, this question was either answered very well or quite badly. Invariably many of the less well prepared candidates calculated corporation tax based on a fifteen-month period. Even when the correct approach was taken, many candidates did not appreciate that the first twelve month period spanned two financial years each with different rates of corporation tax. The due dates were often omitted or incorrect.

Marking scheme

		Marks
Trading profit		1
Capital allowances	– Year ended 31 December 2010	1
	– Period ended 31 March 2011	1
Capital gains		1½
Franked investment income		1
Corporation tax	– Year ended 31 December 2010	1½
	– Period ended 31 March 2011	2
Due dates		1
		10

Do-Not-Panic Ltd – Corporation tax liabilities for the fifteen-month period ended 31 March 2011

	Year ended 31 December 2010	*Period ended 31 March 2011*
	£	£
Trading profit (12:3)	252,000	63,000
Capital allowances (W)	(24,000)	–
	228,000	63,000
Capital gains (42,000 – 4,250)	–	37,750
Profits chargeable to corporation tax	228,000	100,750
Franked investment income	–	25,000
Profits	228,000	125,750

y/e 31.12.10	*FY 2009 3 months to 31.3.10*	*FY 2010 9 months to 31.12.10*
	£	£
PCTCT/profit (9:3)	57,000	171,000
Lower limit		
£300,000 x 3/12	75,000	
£300,000 x 9/12		225,000
Small companies rates apply		
FY 2009		
£57,000 x 21%	11,970	
FY 2010		
£171,000 × 21% (assumed)		35,910
Total CT for y/e 31.12.10		47,880

y/e 31.3.11

FY 2010

Lower limit

£300,000 x 3/12 = £75,000

Upper limit

£1,500,000 x 3/12 = £375,000

Marginal relief applies		£
£100,750 x 28% (assumed)		28,210
Less: $\frac{7}{400}$ x £(375,000 – 125,750) x $\frac{100,750}{125,750}$		(3,495)
CT for p/e 31.3.11		24,715
Due dates	1 October 2011	1 January 2012

Working

Year ended 31 December 2010

	AIA	*Main pool*	*Allowances*
	£	£	£
Equipment	24,000		
AIA	(24,000)		24,000
TWDV carried forward		–	
Period ended 31 March 2011		–	
WDA		–	–
WDV carried forward		–	

32 Thai Curry Ltd

Text references. Chapters 18 and 19 for calculation of profits and PCTCT. Chapter 8 covers capital allowances and IBAs. Chapter 24 for CT administration.

Top tips. It is essential to set out your capital allowances proforma in the correct layout to achieve maximum marks. Ensure that you state all of your assumptions so that you do not miss out on any method marks.

You cannot avoid administration questions in the exam so make sure you know due dates for returns and tax payments.

Marking scheme

					Marks
(a)	Capital allowances				
		TWDV b/f		½	
		AIA		2	
		Disposals		2	
		Balancing allowances		2	
		WDA		½	
		FYA @ 100%		1	
	IBAs				
		Land		1	
		Allowance		1	
	Trading loss			½	
	Deduct allowances			½	
					11
(b)	Trading profit nil			½	
	Property income				
		Property 1	– rent	1	
			– expense	½	
			– bad debt	1	
		Property 2	– rent	½	
			– lease premium	1½	
	Interest			1	
	Chargeable gain			½	
	Deduct CY loss			1	
	FII			½	
	CT limits			1	
	CT @ 28%			½	
	Marginal relief			1½	
					11
(c)	(i)	Return deadline		1	
		Fixed penalty		1	
		Tax geared penalty		1	
					3
	(ii)	9 months 1 day		1	
		Late payment interest		1	
		Interest calculation		1	
					3
					28

(a) **Thai Curry's adjusted trading loss y/e 31 March 2010**

	£
Trading loss	(32,800)
Less: Capital allowances (W1)	(51,330)
Less: IBAs (W2)	(5,800)
Allowable trading loss	(89,930)

Workings

1 *Capital allowances*

	AIA	*FYA @ 100%*	*Main Pool*	*Exp car*	*SLA*	*Allowances*
	£	£	£	£	£	£
TWDV b/f			10,600	16,400	2,900	
Additions qualifying for AIA						
8.7.09 Equipment	7,360					
20.9.09 Office (N1)	22,750					
	30,110					
AIA	(30,110)					30,110
Additions not qualifying for AIA						
26.8.09 Car			15,800			
Disposals						
1.5.09 Equipment			(12,800)			
			13,600			
WDA @ 20%			(2,720)			2,720
15.6.09 SLA (N2)					(800)	
BA					2,100	2,100
14.7.09 Car				(9,700)		
BA				6,700		6,700
Additions qualifying for FYA						
19.11.09 Car		9,700				
100% FYA		(9,700)				9,700
TWDV c/f			10,880			
Allowances						51,330

Notes.

(1) The items included within the cost of the office building purchased on 20 March 2010 will qualify for plant and machinery capital allowances. All of the expenditure is covered by the AIA.

(2) It has been assumed that the SLA has had fewer than 5 WDAs claimed on it up to this date and that therefore a balancing allowance arises.

2 *IBAs*

	£
Cost	360,000
Less: land	(70,000)
	290,000
Thus IBA available is £290,000 × 2%	5,800

(b) **Corporation tax liability y/e 31 March 2010**

	£
Trading profit	Nil
Property income (W1)	72,800
Interest (W3)	11,500
Chargeable gain	152,300
PCTCT	236,600
Less: current year loss relief	(89,930)
Revised PCTCT	146,670
Add: gross dividends: £36,000 × 100/90	40,000
'Profits'	186,670

CT liability	£
FY 2009: £146,670 × 28%	41,068
Less 7/400 (375,000 – 186,670) × (146,670/186,670)	(2,590)
CT liability	38,478

Workings

1 Property income

Property 1

	£	£
8m × £2,200	17,600	
Less: redecoration costs	(8,800)	
Less: rent not recoverable: 2m × £2,200	(4,400)	
Property income		4,400

Property 2

8/12 × £18,000	12,000	
Premium taxable as income (W2)	56,400	
Property income		68,400
Total property income		72,800

2 Lease premium

Premium (P)	60,000
Less: 2% × (n-1) × P	
2% × (4-1) × 60,000	(3,600)
Taxable as income	56,400

3 Loan interest

Received at 30.9.09	8,000
Accrued at 31.3.10	3,500
Total amount (accruals basis)	11,500

	FY 2009 *12 months to 31.3.10*
PCTCT	146,670
'Profits'	186,670
Lower limit £300,000/4	75,000
Upper limit £1,500,000/4	375,000

Therefore marginal relief applies.

(c) (i) **Date for return submission and penalties**

The CT return must be submitted one year after the end of the period of account i.e. by 31 March 2011.

If the return is not submitted until 31 November 2011 it will be 8 months late. If the return is up to 3 months late there is a fixed penalty of £100. If it more than 3 months late, as it is here, the fixed penalty increases to £200.

As the return is more than 6 months late there is also a tax geared penalty of 10% × unpaid tax, ie 10% × £38,478 = £3,848.

(ii) **Date for CT payment & interest**

As the company is not large it must pay its corporation tax by 9 months and 1 day after the accounting period, ie by 1 January 2011.

If the tax is not paid until 31 November 2011 it will be 11 months late and interest will be charged from the due date (in practice interest is calculated on a daily basis.)

The rate of interest on unpaid tax is 2.5% and therefore the amount that will be charged is:

2.5% × 11/12 × £38,478 = £882.

33 Cube Ltd

Text references. Chapter 20 deals with chargeable gains for a company.

Top tips. Ensure your layout is clear and easy to read. This will maximise your marks.

Use workings for each of your gain/ loss calculations and reference them in carefully and clearly to assist the examiner in awarding you as many marks as possible.

Marking scheme

	Marks
Parallel plc	
Proceeds less cost	1½
Indexation	1½
Rectangle plc	
Takeover calculation	2
Loss calculation	1
Racehorse – exempt	1
Square plc	
FA85 pool	1½
Bonus issue	1
Loss calculation	½
Office	
Gain	1½
Rollover relief	2½
Triangle plc	
Matching rules	2
Rights issue	2
CT calculation	2
	20

CT liability y/e 31 March 2010

	£
UK trading profit	90,000
Gains (W1)	28,635
PCTCT	118,635
CT @ 21% (W8)	24,913

Workings

1 Chargeable gains

	£
Parallel plc shares (W2)	24,785
Triangle plc (W7)	17,000
	41,785
Less: loss on Rectangle plc (W3)	(10,000)
Less: loss on Square plc (W5)	(3,150)
Net chargeable gain	28,635

The racehorse is exempt from CGT (W4)
The gain on the disposal of the office can be rolled over into the base cost of the replacement office (W6)

2 Parallel plc

FA85 pool

Event	*No.of shares*	*Cost*	*Indexed cost*
		£	£
Purchase 1.11.02	22,000	101,200	101,200
Index to May 2009			
(210.3-178.2)/178.2 × 101,200			18,230
			119,430
Sale	(4,000)	(18,400)	(21,715)
C/f	18,000	82,800	97,715

Gain	£
Proceeds	46,500
Less: cost	(18,400)
Less: indexation (21,715 – 18,400)	(3,315)
Chargeable gain	24,785

3 Rectangle plc

Original Quadrangle plc FA85 pool

Event	*No. of shares*	*Cost*	*Indexed cost*
		£	£
Pool at 15.7.09	15,000	96,000	96,000

Takeover 15.7.09

Share type:	*No of shares*	*MV*	*Cost*	*Indexed cost*
		£	£	£
Ordinary	15,000	67,500	72,000	72,000
Preference	15,000	22,500	24,000	24,000
	30,000	90,000	96,000	96,000

Note. The cost is allocated to the new shares received in proportion to their market value immediately after the takeover

Gain	£
Proceeds	38,000
Less: cost $\frac{10,000}{15,000} \times 72,000$	(48,000)
Allowable loss	(10,000)

Note. Indexation is not available as the transactions took place in the same month. In any case indexation cannot increase a loss.

4 Racehorse – exempt wasting chattel

5 Square plc

FA85 pool

Event	*No. of shares*	*Cost* £	*Indexed cost* £
Purchase 1.10.09	12,000	60,000	60,000
No indexation as no expenditure			
Bonus issue 16.10.09 1:3	4,000	–	–
	16,000	60,000	60,000
Sale 31.10.09	(8,000)	(30,000)	(30,000)
C/f	8,000	30,000	30,000

Gain	£
Proceeds	26,850
Less: cost	(30,000)
Allowable loss	(3,150)

Note. Indexation is not available as the transactions took place in the same month. In any case indexation cannot increase a loss.

6 Office

Gain	£
Proceeds	335,760
Less: cost	(126,000)
Unindexed gain	209,760
Less: IA	
Index to January 2010	
(206.8 – 173.1) / 173.1= 0.195 × 126,000	(24,570)
Indexed gain	185,190
Less: rollover relief (full)	(185,190)
Chargeable gain	Nil

Full rollover relief is available as all of the proceeds received were spent on buying a replacement office within the required time period (12 months before and 3 years after the disposal).

7 Triangle plc

FA85 pool

Event	*No. of shares*	*Cost* £	*Indexed Cost* £
Purchase 1.3.10	8,000	28,800	28,800
No indexation as in same month			
Rights issue 15.3.10 1:1 @ £3.20	8,000	25,600	25,600
Sale 31.3.10	16,000	54,400	54,400
	(12,000)	(40,800)	(40,800)
C/f	4,000	13,600	13,600

Gain	£
Proceeds	57,800
Less: cost	(40,800)
Chargeable gain	17,000

Note. Indexation is not available as the transactions took place in the same month.

8 CT limits (no associated companies)

Lower limit	£300,000
Upper limit	£1,500,000

Therefore Cube Ltd is a small company paying tax at 21%

34 Hawk Ltd

Text reference. Chargeable gains for companies are covered in Chapter 20.

Top tips. Work out each of the gains separately and then bring them together in a summary. Even if you are unsure about how to deal with one of the gains, make sure that you attempt the calculation of tax.

Easy marks. The calculation of corporation tax was an easy mark.

Marking scheme

				Marks
(a)	**Office building**			
	Disposal proceeds		½	
	Costs of disposal		½	
	Cost		½	
	Costs of acquisition		½	
	Enhancement expenditure		½	
	Indexation	– Cost	1	
		– Enhancement	1	
	Albatross plc			
	Proceeds		½	
	Cost		2	
	Cuckoo plc			
	Proceeds		½	
	Value of shares	– Ordinary shares	1	
		– Preference shares	1	
	Cost		1½	
	Land			
	Proceeds		½	
	Costs		2	
	Corporation tax liability			
	Net chargeable gains		1	
	Calculation		1½	
				16
(b)	(i)	Qualifying disposal	1	
		Amount of reinvestment	1	2
	(ii)	Period of reinvestment		1
	(iii)	Corporation tax savings		1
				20

(a) **Corporation tax liability y/e 31 March 2010**

Net chargeable gains

	£
Office building (W1)	77,784
Albatross Ltd Shares (W2)	25,000
Cuckoo Ltd preference shares (W3)	17,000
Land (W4)	(12,000)
Net chargeable gains	107,784

Workings

1 *Office building*

	£
Proceeds	260,000
Less: disposal costs	(5,726)
Net proceeds of sale	254,274
Less: original costs £(81,000 + 3,200)	(84,200)
enhancement expenditure	(43,000)
Unindexed gain	127,074
Less: indexation allowance	
on original cost	
(210.8-138.8)/138.8(0.519) x £84,200	(43,700)
on enhancement	
(210.8-186.5)/186.5(0.130) x £43,000	(5,590)
Indexed gain	77,784

2 *Albatroses Ltd shares*

FA 1985 pool

	No. of shares	*Cost*
		£
1.8.09 Acquisition	6,000	18,600
17.8.09 Acquisition	2,000	9,400
	8,000	28,000
29.8.09 Disposal	(5,000)	(17,500)
c/f	3,000	10,500

	£
Proceeds	42,500
Less: cost	(17,500)
Gain (no indexation allowance)	25,000

3 *Cuckoo Ltd preference shares*

Reorganisation

	MV	*Cost*
	£	£
15,000 Ordinary shares (5,000 x 3) x £4.50	67,500	45,000
10,000 Preference shares (5,000 x 2) x £2.25	22,500	15,000
	90,000	60,000

	£
Proceeds	32,000
Less: cost	(15,000)
Gain (no indexation allowance)	17,000

4 *Land*

	£
Proceeds	120,000
Less: costs £203,500 x $\frac{120,000}{120,000 + 65,000}$	(132,000)
Loss	(12,000)

Corporation tax liability

	£
Trading income	125,000
Net chargeable gains	107,784
PCTCT	232,784
Hawk Ltd is a small company	
£232,784 x 21%	48,885

(b) (i) The only disposal that qualifies for rollover relief is the sale of the freehold office building. Shares do not qualify and the land has not been used for business purposes.

The office building was sold for £260,000, and this is therefore the amount that Hawk Ltd will have to reinvest in order to claim the maximum possible amount of rollover relief.

Tutorial note

It would also have been acceptable to state that the net disposal proceeds (£254,274) had to be reinvested to claim the maximum possible of rollover relief.

(ii) The reinvestment will have to take place between 1 May 2008 and 30 April 2012, which is the period starting one year before and ending three years after the date of disposal.

(iii) Corporation tax of £16,335 (£77,784 x 21%) will be saved if the maximum possible amount of rollover relief is claimed.

35 Spacious Ltd

Text references. Chapter 18 and 19 for PCTCT and CT calculations. Chapter 20 for chargeable gains. CT loss relief covered in Chapter 21.

Top tips. Use a loss proforma when apportioning losses to accounting periods. Use a proforma when calculating capital allowances. Proformas improve the layout of an answer and are liked by the examiner as they help with marking an answer.

Make sure you follow closely the question requirements. Part (b) asks you to consider a loss claim against total profits (and no other loss relief). Don't waste time and effort doing anything extra or different. Part (c) then allows you to discuss carrying the loss forward. Only discuss that option in this section.

Easy marks. The adjustment of the loss was fairly straightforward. Adjustment of a profit/loss is something that you should expect to see in nearly every exam. Calculating capital allowances is another topic which appears regularly in the exam and provides easy marks for the knowledgeable student.

Examiner's comments. A number of candidates achieved maximum marks. In part (b) some candidates carried back all of the loss to the previous period. Part (c) was reasonably well answered if candidates appreciated that the main benefit of carrying the loss forward was that relief was obtained at a higher rate.

Marking scheme

			Marks
(a)	Loss before tax	½	
	Depreciation	½	
	Patent	½	
	Professional fees (½ each)	2½	
	Repairs/renewals (½ each)	1	
	Other expenses (½ each)	1½	
	Office building	½	
	Bank interest receivable	½	
	Interest payable	½	
	IBA – Land	½	
	– General offices	2	
	– Eligible expenditure	1	
	– Allowance	½	
	Long life asset	1	
	P&M – main pool	1	
	– AIA	1	
	– FYA	1	
	– car sold	1	
	– special rate pool	1	
	– WDA	1	
			19
(b)	Trading income	1	
	Interest income	1	
	Gain	2	
	Capital loss	1	
	Loss relief	2	
	Gift aid	1	
			8
(c)	Year ended 31 March 2010	1	
	Period ended 31 March 2009	1	
	Carry forward	1	
			3
			30

(a) **Trading loss**

	£	£
Loss before taxation		(124,200)
Depreciation	54,690	
Patent royalties (N1)	0	
ccountancy and audit	0	
Legal fees – share capital (N2)	8,800	
Legal fees – debentures (N2)	0	
Legal fees – defence of trade	0	
Legal fees – court action (N2)	900	
Repairs and renewals: new wall (N3)	9,700	
Repairs and renewals: roof repair (N3)	0	
Other expenses: entertaining customers	4,215	
Other expenses: entertaining employees	0	
Other expenses: gift aid	1,000	79,305
		(44,895)
Office building profit		(54,400)
Bank interest		(7,000)
Interest payable (N4)		0
Capital allowances – IBAs (W1)	3,270	
– P&M (W2)	79,840	
Trading loss		(83,110)
		(189,405)

Notes

1 No adjustment needed for patent royalties as treated as part of trading expenses.

2 Costs relating to share capital need to be added back as they relate to a capital expense. However, the fees relating to the debentures are a loan relationship expense and thus deductible as a trading expense because the debenture is for trade purposes. Legal fees in relation to fine are not deductible as the fine is a payment contrary to public policy.

3 The cost of the new wall has been added back as a capital expense but the cost of the roof is allowable as it is a repair and therefore a revenue expense.

4 No adjustment is needed for the interest because it relates to a trade purpose loan.

Workings

1 *IBAs*

	£
Drawing office	54,000
Factory £(360,000 – 135,000 – 61,500 – 54,000)	109,500
Allowable cost	163,500

WDA @ 2% = 3,270

Note. General offices cost more than 25% of £(360,000 – 135,000) = £225,000. This means that the expenditure on the general office is not eligible for IBAs.

2 *Plant and machinery*

	AIA	*FYA*	*Main pool*	*Special rate pool*	*Exp. Car*	*Allowances*
	£		£	£	£	£
TWDV b/f			28,400		14,800	
Additions qualifying for AIA/FYA						
1.9.09 Crane	110,000					
AIA (best use)	(50,000)			60,000		50,000
10.4.09 Equipment		30,200				
FYA @ 40%		(12,080)				12,080
		18,120				12,080
Additions not qualifying for AIA/FYA						
5.2.10 Car				27,200		
31.3.10 Car			9,400			
Disposals						
5.2.10 Car					(9,800)	
BA					5,000	5,000
20.3.10 Lorry			(17,600)			
			20,200	87,200		
WDA @ 20%			(4,040)			4,040
WDA @ 10%				(8,720)		8,720
Transfer balance to pool		(18,120)	18,120			
TWDVs c/f			34,280	78,480		
Allowances						79,840

Note. The private use of the car by the employee is not relevant for capital allowance purposes. No adjustment is ever made to a company's capital allowances to reflect the private use of an asset.

The AIA is allocated against the expenditure which will get the lowest rate of WDAs.

(b)

	Period ended 31 March 2009	*Year ended 31 March 2010*
	£	£
Trading income	218,200	0
Interest income	5,200	7,000
Capital gain (W)	0	15,100
	223,400	22,100
Less: carry back/current year loss relief	(167,305)	(22,100)
	56,095	0
Less: Gift Aid payment	(800)	0
PCTCT	55,295	0

Working

Gain on building

	£
Proceeds	380,000
Less indexed cost	(345,400)
Indexed gain	34,600
Less rollover relief £34,600 – (380,000 – 360,000)	(14,600)
	20,000
Less loss b/f	(4,900)
Capital gain	15,100

(c) Using the loss in the year to 31 March 2010, Spacious Ltd has saved tax as follows:

£22,100 @ 21% = £4,641

Using the rest of the loss in the period to 31 March 2009, Spacious Ltd has saved 21% × £167,305 = £35,134.

Total tax saved is therefore £39,775.

However, if the loss of £189,405 had been carried forward to year ended 31 March 2011, it would have saved tax of £189,405 × 29.75% = £56,348.

36 Adamson Ltd

Text references. Chapter 21 deals with loss relief for companies.

Top tips. In a loss relief question, set out your proforma then copy in the numbers from the question – remember the trading profits figure is 'nil' when there is a loss in a period. You can then apply the loss relief rules.

Remember that a company **must** make a current year claim if it wishes to then carry back losses to an earlier period (individuals may choose which claim, if any, to make first.)

Marking scheme

			Marks
(a)	Rate of corporation tax	1	
	Timing of relief	1	
	Gift aid donations	1	
			3
(b)	31.3.08 CY claim	½	
	31.3.08 CB claim	1	
	31.3.10 CY claim	½	
	31.3.10 CB claim	1	
	31.3.10 extended carry back claim, restricted to £50,000	1	
	Calculate unrelieved trading loss	1	
			5
(c)	Extension of relief, unrestricted	1	
	Use profits of year ended 31 March 2007 to fully relieve loss	1	
			2
			10

(a) **Choice of loss relief factors**

(i) The marginal rate of tax – losses will be better used in years where the tax rate is higher.

(ii) Timing – it will be preferable to obtain relief in earlier years as this will result in a repayment of tax already paid.

(iii) Gift aid – loss relief may lead to gift aid donations becoming wasted (as they cannot be carried forward – only group relieved in the current period) in which case it may be better to use the loss in a year where they will not be wasted.

(b) **Losses**

	y/e 31.3.07	y/e 31.3.08	y/e 31.3.09	y/e 31.3.10
	£	£	£	£
Trading profit	86,600	0	27,300	0
Property income	0	4,500	8,100	5,600
Total profits	86,600	4,500	35,400	5,600
Less CY loss	0	(4,500)(i)	–	(5,600)(iii)
Less loss carried back	(1,200)(ii)	0	(35,400)(iv)	0
Less extended loss carry back	(50,000) (v)	0	0	0
Revised profits	35,400	0	0	0
Less Gift aid donations	(1,400)	0	0	0
PCTCT	34,000	0	0	0

Loss memo

		£
Loss of y/e 31.3.08		5,700
(i)	current year y/e 31.3.08	(4,500)
(ii)	carry back 12 months y/e 31.3.07	(1,200)
c/f		Nil
Loss of y/e 31.3.10		98,300
(iii)	current year y/e 31.3.10	(5,600)
(iv)	carry back 12 months y/e 31.3.09	(35,400)
(v)	extended carry back y/e 31.3.07 (N)	(50,000)
Loss unrelieved at 31 March 2010		7,300

Note: for Adamson Ltd's period ended 31 March 2010, the carry back period is extended to 36 months, subject to maximum relief of £50,000 outside the usual carry back period.

(c) **Difference if company ceased trading 31 March 2010**

If the y/e 31 March 2010 had been the company's final period it would have been able to carry back the losses of the y/e 31 March 2010 against the profits of the previous 36 months. The £50,000 restriction, which applies to the carry back extension described above, would not apply.

Since there were sufficient profits in the y/e 31 March 2007 to absorb the whole of the loss, there would be no loss unrelieved at 31 March 2010.

37 Jogger Ltd

Text references. Capital allowances are dealt with in Chapter 8. Corporation tax is dealt with in Chapters 18 and 19. Self assessment and payment of tax by companies is covered in Chapter 24. VAT is dealt with in Chapters 25 and 26.

Top tips. You could start with the VAT part of the question as only brief explanations were required for the marks available. You could then have gone back to part (a) which required fairly complex computations which it would have been easy to spend a lot of time preparing.

Easy marks. Stating the due date for payment of corporation tax was an easy mark.

Marking scheme

				Marks
(a)	(i)	Operating loss	½	
		Depreciation	½	
		P&M – AIA / FYA	1½	
		– Pool	2	
		– Expensive motor car	1½	
		IBA – WDA	1	
				7
	(ii)	Property business profit	2	
		Bank interest	½	
		Loan interest	1	
		Chargeable gain	½	
		Loss relief	1	
		Franked investment income	1	
		Corporation tax	2	
				8
	(iii)	Due date	1	
		Fixed penalty	1½	
		Corporation tax related penalty	1½	
				4
(b)	(i)	Quarter ended 30 September 2008	2	
		Quarter ended 31 March 2009	2	
		Quarter ended 31 March 2010	2	
				6
	(ii)	One VAT return	1½	
		Payments on account	1½	
		Limit	1	
		VAT returns	1	
				5
				30

(a) (i) **Trading loss y/e 31.3.10**

	£
Operating loss	(9,140)
Add: depreciation	12,340
	3,200
Less: capital allowances	
P&M (W1)	(54,060)
IBA (W2)	(5,000)
Adjusted trading loss	(55,860)

Workings

1 *Plant and machinery*

	AIA/FYA	*Main Pool*	*Exp. car*	*Allowances*
	£	£	£	£
TWDV b/f		21,600	8,800	
Additions qualifying for AIA/FYA				
30.9.09 Machinery	55,000			
AIA	(50,000)			50,000
	5,000			
FYA @ 40%	(2,000)			2,000
	3,000			
Additions not qualifying for AIA/FYA				
31.7.09 Car		11,800		
Disposals				
20.7.09 Expensive car			(11,700)	
BC			(2,900)	(2,900)
14.3.10 Lorry		(8,600)		
		24,800		
WDA @ 20%		(4,960)		4,960
Transfer balance to pool	(3,000)	3,000		
TWDV c/f		22,840		
Allowances				54,060

2 *IBAs*

£250,000 x 2%	5,000

(ii) **Jogger Ltd – corporation tax computation y/e 31.3.10**

	£
Interest income (W1)	33,060
Property income (W2)	126,000
Chargeable gain	98,300
	257,360
Less: loss relief against total profits	(55,860)
PCTCT	201,500
Add: FII £45,000 x 100/90	50,000
Profits	251,500

Corporation tax

Upper limit £1,500,000 / 3 associated companies	500,000
Lower limit £300,000 / 3 associated companies	100,000

Marginal relief applies	
£201,500 x 28%	56,420
Less: 7/400 x £(500,000 – 251,500) x 201,500/251,500	(3,484)
Corporation tax payable	52,936

Workings

1 *Interest income*

	£
Bank interest receivable	8,460
Loan interest – received 31.12.09	16,400
– accrued 31.3.10	8,200
	33,060

2 *Property income*

	£
Premium received	100,000
Less: 2% x (10 – 1) x £100,000	(18,000)
Taxable as property income	82,000
Add: rental income accrued	44,000
	126,000

(iii) Jogger Ltd's self-assessment tax return for the year ended 31 March 2010 must be submitted by 31 March 2011.

If the company submits its self-assessment tax return eight months late, then there will be an automatic fixed penalty of £200, since the return is more than three months late.

There will also be an additional corporation tax geared penalty of £5,294 (£52,936 x 10%) which is 10% of the tax unpaid six months after the return was due (since it is stated in the question that the corporation tax liability is paid at the same time the self-assessment tax return is submitted which is eight months late) as the total delay is up to 12 months.

(b) (i) The late submission of the VAT return for the quarter ended 30 September 2008 will have resulted in HM Revenue and Customs (HMRC) issuing a surcharge liability notice specifying a surcharge period running to 30 September 2009.

The late payment of VAT for the quarter ended 31 March 2009 will have resulted in a surcharge of £778 (£38,900 x 2%) because this is the first default in the surcharge period. The surcharge period will also have been extended to 31 March 2010.

The late payment of VAT for the quarter ended 31 March 2010 will therefore have resulted in a surcharge of £4,455 (£89,100 x 5%) because this is the second default in the surcharge period. The surcharge period will also have been extended to 31 March 2011.

(ii) **Annual accounting scheme**

The reduced administration from only having to submit one VAT return each year should mean that default surcharges are avoided in respect of the late submission of VAT returns.

In addition, making payments on account based on the previous year's VAT liability will improve both budgeting and possibly cash flow if Jogger Ltd's business is expanding.

Jogger Ltd can apply to use the annual accounting scheme if its expected taxable turnover for the next 12 months does not exceed £1,350,000 exclusive of VAT.

However, the company must be up to date with its VAT returns before it is allowed to use the scheme.

38 B and W Ltd

Text references. Chapter 19 for CT computation. Chapter 23 for overseas aspects of CT.

Top tips. The set off of DTR must be made on a source by source basis.

Easy marks. Using a proforma for the DTR calculation not only improves your layout but reduces the risk of making mistakes and losing marks.

Marking scheme

		Marks
B Ltd –	Trading income	½
	Capital gains	½
	Overseas income	1
	Interest income	½
	Gift Aid payment	1
	FII	1
W Ltd –	Trading income/PCTCT	½
B Ltd –	Tax calculation	3
DTR –	UK profits	1
	Overseas income	1
	Average rate of CT	1
	DTR set off	1
W Ltd –	CT	3
		15

Corporation tax

	B Ltd	*W Ltd*
	£	£
Trading income	296,000	6,000
Capital gains	30,000	0
Overseas trading income (× 100/80)	2,000	0
Interest income	8,000	0
Less Gift Aid donation	(18,000)	0
PCTCT	318,000	6,000
FII	32,000	0
'Profits'	350,000	6,000

B Ltd

FY 2009

Lower limit = £150,000
Upper limit = £750,000

Note. There are two associated companies so the upper and lower limits must be divided by two.

Marginal relief applies.

	£
£318,000 × 28%	89,040
Less 7/400 (750,000 – 350,000) × $\frac{318,000}{350,000}$	(6,360)
	82,680
Less DTR (W1)	(400)
Mainstream corporation tax	82,280

W Ltd

CT

FY2009

£6,000 × 21% = £1,260

Working: Double tax relief

	UK profits	*Overseas income*	*Total*
	£	£	£
Profits	334,000	2,000	336,000
Less Gift Aid	(18,000)	–	(18,000)
	316,000	2,000	318,000

CT $\frac{82,680}{318,000}$ = 26%

	82,160	520	82,680
Less DTR			
lower of:			
(i) UK tax (£520)			
(ii) Overseas tax (£400)		(400)	(400)
	82,160	120	82,280

39 Sirius Ltd

Text references. Chapter 19 for corporation tax calculation. Chapter 8 for capital allowances and IBAs. Chapter 21 for CT losses and Chapter 23 for overseas aspects of CT.

Easy marks. You should have been able to get a couple of the points in part (b) and calculate the tax on the permanent establishment for easy marks.

Examiner's comments. This question was quite well answered by many of the candidates. Part (a) caused few problems, and many candidates achieved full marks. When dealing with the permanent establishment in part (b), the main problem was only including the profits remitted.

Marking scheme

				Marks
(a)	(i)	Depreciation	½	
		Loss on disposals	½	
		Gift Aid	½	
		Dividends paid/ received	½	
		Capital allowances	4	
		Chargeable gain	1½	
		Capital loss	½	
		Use of trading loss	1	
		CT rate	1	
				10
	(ii)	Tax due dates	1	
		Return submission date	1	
				2
	(iii)	Prior year	1	
		Carry forward	1	
		Best use	1	
				3

(b)	CT on PE profits	1	
	CT on dividends received from subsidiary	1	
	Losses	1	
	Capital allowances	1	
	Associated companies	1	
			5
(c)	**Permanent establishment**		
	Trading income	½	
	Overseas income	1	
	CT	1½	
	DTR	1	
			4
			24

(a) (i) **Corporation tax computation – year ended 31 March 2010**

	£
Taxable trading profit (W1)	Nil
Net chargeable gain (W3)	1,601,580
	1,601,580
Less current year loss relief (W1)	(57,520)
	1,544,060
Less Gift Aid donation	(25,000)
PCTCT	1,519,060
Add: FII (£18,000 × 100/90)	20,000
'Profits'	1,539,060

Corporation tax payable (W4)

£1,519,060 × 28% = £425,337

Workings

1 *Taxable trading profits*

	£	£
Loss per accounts		(125,000)
Add depreciation	42,750	
loss on disposal of computer equipment	5,260	
loss on sale of factory	39,500	
gift aid donation paid	25,000	
dividends paid	21,000	
		133,510
Less dividends received		(18,000)
		(9,490)
Less capital allowances (W2)		(48,030)
Adjusted trading loss		(57,520)
Taxable trading profits		Nil

If loss relief is claimed as early as possible, the loss will be set off against other profits of the current period of the year ended 31 March 2010.

2 *Capital allowances – year ended 31 March 2010*

	AIA/FYA	Main Pool	Expensive Car	SLA	CAs
	£	£	£	£	£
TWDV b/f		42,000	13,000	3,600	
Additions eligible for AIA					
Computer (N1)	12,000				
Van	21,680				
	33,680				
AIA	(33,680)				33,680
Disposal (N2)				(250)	
BA				3,350	3,350
WDA @ 20% (N3)		(8,400)	(2,600)		11,000
TWDV c/f		33,600	10,400		
Total allowances					48,030

Notes

(1) The computer system is eligible for the AIA in the year of purchase. This means that allowances equal to the full cost are received in this first accounting period. There is no benefit to be obtained by treating it as a SLA.

(2) The lower of original cost and disposal proceeds is used in the capital allowances computation.

(3) The private use of the car by the director does not affect the company's allowances, which are given in full. Instead the director will be taxable on the benefit of using the car.

3 *Disposal of factory – Net chargeable gain*

	£
Proceeds	1,750,000
Less: Cost	(85,000)
Unindexed gain	1,665,000
Less Indexation allowance	
(209.3-166.2)/166.2= 0.259 × £85,000	
	(22,015)
Chargeable gain	1,642,985
Capital loss b/f	(41,405)
Net chargeable gain	1,601,580

4 *Corporation tax rate*

FY 2009 Upper limit = £1,500,000

Profits > £1,500,000, therefore Sirius Ltd is a large company for corporation tax purposes

(ii) **Due dates**

CT payment

The Corporation tax must be paid in four equal instalments of £106,334(25%) due on the following dates:

- 14 October 2009
- 14 January 2010
- 14 April 2010 and
- 14 July 2010

Tax return

The return must be submitted by 31 March 2011.

(iii) **Use of trading loss**

Sirius Ltd has two options available for its trading loss:

(1) Carry forward to set off against the first available future trade profits only; and
(2) Set off against profits of the current accounting period (as above).

Sirius Ltd cannot carry back the loss to the previous period as there is not enough loss to carry back. A carry back claim can only be made if the current year's PCTCT has been fully relieved first.

The anticipated profits for the next year are below the corporation tax limit of £300,000 ignoring the possible foreign subsidiary (or £150,000 if a foreign subsidiary is set up). Sirius Ltd would therefore only save tax at 21%, and the relief would be obtained at a later date.

The best solution is therefore a current year claim as above, which saves tax at 28%.

(b) The income of the profits of the permanent establishment will be subject to UK corporation tax on an arising basis. Double taxation relief will be available.

A UK company may receive dividends from its non UK subsidiary. The dividends will be exempt from corporation tax. The withholding tax on the dividend will not be available for relief.

If the overseas operation trades at a loss, UK tax relief will only be available if it is a permanent establishment, not a subsidiary.

Capital allowances will only be available to a permanent establishment, not to a subsidiary.

In the case of a subsidiary, it will be an associated company and so will reduce the corporation tax limits.

(c) *Permanent establishment*

	£
Trading income	105,000
Overseas income	200,000
PCTCT	305,000
CT @ 28%	85,400
Less marginal relief	
£(1,500,000 – 305,000) × 7/400	(20,913)
	64,487
Less DTR lower of:	
(1) $\frac{200,000}{305,000} \times$ £64,487= £42,287	
(2) £40,000, ie	(40,000)
CT liability	24,487

40 A Ltd

Text references. Chapters 18, 19, 22 and 24 are required reading for this question.

Top tips. B Ltd's loss could be set only against the available profits of the corresponding accounting period.

Marking scheme

	Marks
Trading income	½
Property business income	½
Interest income	2
Gift aid	1
Group relief	5
FII	1
CT calculation	3
Due dates	2
	15

Corporation Tax computation 9 m/e 31 December 2009

	£	£
Trading income		342,000
Property business income		13,000
Interest income		
Bank interest accrued	5,000	
Loan interest accrued	8,000	
		13,000
		368,000
Less: Gift Aid donation		(17,000)
		351,000
Less: group relief (W1)		(34,000)
PCTCT		317,000
Add: Franked Investment Income		1,000
'Profits'		318,000

	£
Corporation tax	
FY 2009	
£317,000 × 28%	88,760
Less marginal relief	
$7/400\ (£562{,}500 - 318{,}000) \times \dfrac{317{,}000}{318{,}000}$	(4,265)
Corporation tax	84,495

£84,495 must be paid by 1 October 2010.

The corporation tax return for the period must be filed by 31 December 2010.

Note. It is assumed that the loan interest and the bank interest arose on non-trading loans and is therefore taxable as interest income.

Workings

1 B Ltd joined the group with A Ltd on 1 July 2009 so for A Ltd's profit making accounting period to 31 December 2009 there are 6 months in common with B Ltd's loss making period.

Thus

A Ltd 6/9 × £351,000 = £234,000
B Ltd 6/12 × (£68,000) = £34,000

Maximum group relief available is lower of two, ie £34,000.

2 The 9 months to 31 December 2009 falls into FY 2009.

'Profits' are between the upper and lower limits of £1,500,000 × 9/12 ÷ 2 = £562,500 and £300,000 × 9/12 ÷ 2 = £112,500, so marginal relief applies.

41 Gold Ltd

Text references. Chapters 18 and 19 for corporation tax computation and Chapter 8 for capital allowances. Group relief is dealt with in Chapter 22.

Top tips. You may want to draw a simple diagram showing the accounting periods of each company and how they overlap.

Easy marks. Part (c) required a list of the allocation of group relief which did not need to be related to the facts of the question and therefore should have been answerable even if the figure work in the other parts of the question was not correct.

Drawing a diagram matching profits of the corresponding periods is a good way to ensure you answer the question correctly and gain all the marks. Such a drawing is a perfectly acceptable part of your workings and should be handed in as part of your answer to the examiner.

Examiner's comments. In part (b) many candidates had problems in calculating the group relief for non-coterminous periods. Part (c) was well answered by most candidates. In part (d), the majority of candidates did not appreciate that group relief should be restricted to bring the holding company's profits down to the SCR lower limit.

Marking scheme

			Marks
(a)	Depreciation	½	
	Dividends	½	
	Deduct CAs/ IBAs	1	
	P&M – Main pool	3	
	– AIA	1	
	– Car sold	2	
	– SLA	1½	
	– Special rate pool	1	
	IBA – land	1½	
	– offices	2	
	– WDA	1	
			15
(b)	Trading income	½	
	Property business income/capital gain	½	
	Gift aid donation	1	
	Group relief – year ended 31 December 2009	1½	
	– year ended 31 December 2010	1½	
	Associated company	1	
	Corporation tax	2	
			8

(c)	Marginal rate	1	
	Full rate	½	
	Small companies rate	½	
	Loss of Gift Aid relief	1	
	Other considerations	1	
			4
(d)	Year ended 31 December 2009 (Gold Ltd)	1	
	Year ended 31 December 2010 (Gold Ltd)	1	
	Year ended 30 June 2009 (Silver Ltd)	1	
			3
			30

(a) **Trade loss year ended 30 June 2010**

	£	£
Loss before taxation		(50,950)
Add depreciation		36,632
		(14,318)
Less dividend income	116,514	
capital allowances (W1)	6,400	
IBAs (W2)	2,945	
		(125,859)
Trade loss		(140,177)

Workings

1 *Capital allowances*

	AIA/FYA	*Main pool*	*Exp Car (1)*	*SLA*	*Special rate pool*	*Allowances*
	£	£	£	£	£	£
TWDV b/f		29,850	11,750	2,700		
Additions qualifying for AIA/FYA						
1 July 2009 equipment	3,360					
AIA	(3,360)					3,360
Additions not qualifying for AIA/FYA						
31 August 2009 car (2)					23,250	
12 November 2009 car (3)		9,500				
Disposals						
5 July 2009 car (1)			(18,700)			
7 October 2009 van (restrict to cost)		(11,750)				
16 April 2010 SLA				(555)		
		27,600				
BC			(6,950)			(6,950)
BA				2,145		2,145
WDA @ 20%		(5,520)				5,520
WDA @ 10%					(2,325)	2,325
TWDV c/f		31,380			20,925	
Allowances						6,400

2 *Industrial buildings allowance*

	£
Total cost	295,000
Less land	(85,000)
Cost of building	210,000

Offices represent $\frac{£62{,}750}{£210{,}000}$ = 29.88% of the cost of the building. As this is greater than 25% IBAs can only be claimed on £147,250 (£210,000 – £62,750).

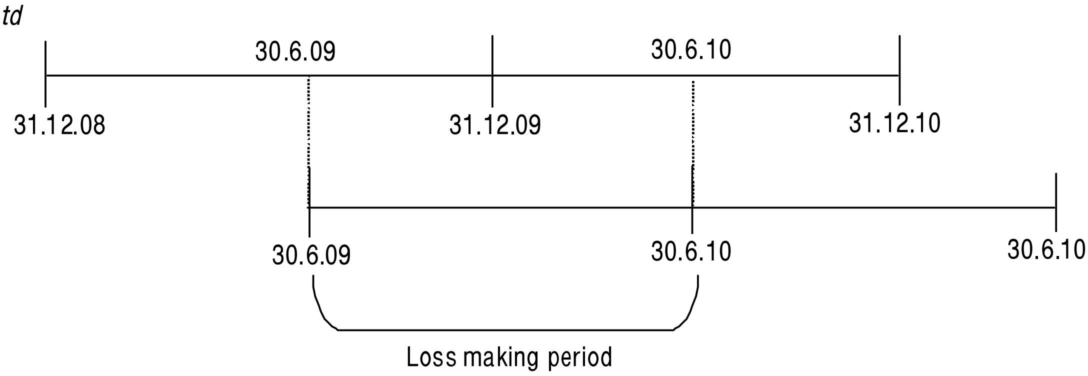
IBA = £147,250 × 2% = £2,945

(b) **Gold Ltd – Corporation tax computation**

	Year ended 31 December	
	2009	*2010*
	£	£
Trading income	177,000	90,000
Property business income	5,000	–
Capital gain	–	12,000
	182,000	102,000
Less gift aid donation	(2,000)	(2,000)
	180,000	100,000
Less group relief (W1)	(70,089)	(50,000)
PCTCT	109,911	50,000
CT (FYs 08,09,10)		
Small companies rate applies @ 21%	23,081	10,500

Working

Gold Ltd



For year ended 31 December 2009 profits of the corresponding period (1 July 2009 to 31 December 2009) are £180,000 × 6/12 = £90,000 and the corresponding loss is £140,177 × 6/12 = £70,089.

Therefore maximum group relief is £70,089.

For year ended 31 December 2010, profits of the corresponding period (1 January 2010 to 30 June 2010) are £100,000 × 6/12 = £50,000 and the corresponding loss is £70,089.

Therefore maximum group relief is £50,000.

(c) Group relief should be allocated in the following order:

(1) To companies in the small companies' marginal relief band to bring them down to the small companies' rate limit.

(2) To companies paying the full rate.

(3) To companies paying the small companies' rate.

Consideration should also be given to the loss of Gift Aid relief.

Subject to the above considerations, loss relief should be claimed as early as possible.

(d) The group relief claim should be restricted to £30,000 for the year ended 31 December 2009 to bring the PCTCT to the lower limit of £150,000. No claim should be made for year ended 31 December 2010 since the PCTCT is already below £150,000. Instead the remainder of the loss £(140,177 – 30,000) = £110,177 should be carried back against Silver Ltd's own profit for year ended 30 June 2009 which is mostly taxable at the marginal rate.

42 Apple Ltd

Text references. Corporation tax computations are covered in Chapter 19. Chargeable gains for companies are dealt with in Chapters 20. Group relief is covered in Chapter 22.

Top tips. When using losses, consider the marginal rates of tax of each company.

Marking scheme

					Marks
(a)	(i)	*Surrender of trading losses*			
		Rate of corporation tax		1	
		Order of set off		1	
		Minority interests		1	
	(ii)	*Chargeable gains/allowable losses*			
		Match gains with losses		1	
					4
(b)	(i)	*Profits chargeable to corporation tax*			
		Apple – Trading profits		1	
		– Capital gains		1	
		Bramley Ltd's Loss		1	
		Cox Ltd's loss		1	
		Delicious Ltd's loss		1	
					5
	(ii)	*Corporation tax saving*			
		Capital loss – use in Apple Ltd		2	
		Rollover relief		1	
		Proceeds not reinvested still chargeable		1	
		Corporation tax saving		1	
		Bramley Ltd's loss		2	
		Cox Ltd's loss		2	
		Delicious Ltd's loss		1	
		Corporation tax savings		3	
			Available	13	
			Maximum		11
			Maximum		20

(a) (i) The most important factor that should be taken into account when deciding which group companies the trading losses should be surrendered to is the rate of corporation tax applicable to those companies. Surrender should be made initially to companies subject to corporation tax at the marginal rate of 29.75%. The amount surrendered should be sufficient to bring the claimant company's profits down to the corporation tax lower limit. Surrender should then be to those companies subject to the full rate of corporation tax of 28%, then to companies subject to corporation tax at the small company rate of 21%. The ability of companies with minority interests to compensate for group relief surrenders will be another factor.

(ii) *Chargeable gains/allowable losses*

It would probably be beneficial to elect to transfer allowable losses to Apple Ltd because this would allow chargeable gains and allowable losses to arise in the same company, and therefore reduce Apple Ltd's chargeable gains. Such elections must be made by both group members within 2 years of the end of the accounting period in which the loss is made.

(b) (i) *Apple Ltd*

	Years ended 31 March		
	2009	*2010*	*2011*
	£	£	£
Trading profits	620,000	250,000	585,000
Capital gain	–	120,000	80,000
PCTCT	620,000	370,000	665,000

Bramley Ltd

	Years ended 31 March		
	2009	*2010*	*2011*
	£	£	£
Trading profits	–	52,000	70,000
Less: carry forward loss relief	–	(52,000)	(12,000)
PCTCT	–	–	58,000

Cox Ltd

	Years ended 31 March		
	2009	*2010*	*2011*
	£	£	£
Trading profits	83,000	–	40,000
Less: carry back loss relief	(58,000)	–	–
PCTCT	25,000	–	40,000

Delicious Ltd

	Years ended 31 March		
	2009	*2010*	*2011*
	£	£	£
Trading profits	–	90,000	–
Less: carry back loss relief	–	(15,000)	–
PCTCT	–	75,000	–

(ii) *Apple Ltd*

	Years ended 31 March		
	2009	*2010*	*2011*
	£	£	£
Trading profits	620,000	250,000	585,000
Chargeable gain	–	20,000	36,000
Less group relief	(64,000)	(58,000)	–
PCTCT	556,000	212,000	621,000

In the year to 31 March 2009 group relief has been claimed for Bramley Ltd's loss. This saves Apple Ltd corporation tax of £17,920 (£64,000 × 28%). If the loss had been carried forward as shown above it would have saved Bramley Ltd tax of £13,440 (21% × £64,000). The overall tax saving to the group arising as a result of the group relief claim is £4,480.

Rollover relief has been claimed to defer £100,000 of the chargeable gain arising in the year to 31 March 2010. The £20,000 gain remaining chargeable is equal to the amount of proceeds not reinvested by Cox Ltd in the freehold factory. The lower limit for the year to 31 March 2010 is £75,000 so the rollover relief saves Apple Ltd corporation tax of £29,750 (£100,000 × 29.75%).

It is assumed that Delicious Ltd and Apple Ltd will make an election to transfer the loss on the leasehold factory to Apple Ltd. If this occurs, the loss on the sale of the factory will arise on Apple Ltd in the year to 31 March 2011. Apple Ltd will be able to relieve the £44,000 loss by setting it against its chargeable gain for the year, saving tax of £12,320 (£44,000 × 28%)

In the year to 31 March 2010 group relief has been claimed for Cox Ltd's loss. This saves corporation tax of £17,255 (£58,000 × 29.75%). If the loss had been carried back as shown above, it would have saved Cox Ltd corporation tax of £12,180 (£58,000 × 21%). The overall tax saving to the group of a group relief claim is therefore £5,075 (£17,255 – £12,180).

Delicious Ltd could surrender its loss of £15,000 in the year to 31 March 2011 to Cox Ltd. This would not be beneficial as the tax saving would be at 21% whereas the tax saving will be at 29.75% if the carry back relief claim shown in (b) (i) above is made.

43 Tock-Tick Ltd

Text references. Calculation of taxable profits PCTCT and CT in Chapters 18 and 19. Capital allowances covered in Chapter 8. Group relief is covered in Chapter 22. Rollover relief in Chapter 20.

Top tips. Make sure you know the tax consequences of a company being in different type of group and can apply the rules accordingly.

Easy marks. Part (a) was an adjustment of profits with many standard items to adjust for easy marks. Always show workings and state why you are/are not adjusting profits for items in the question to gain all possible marks (see examiner's comments below). Follow question requirements carefully, for example calculation of CT was **not** required. Don't waste your time and effort doing things the examiner doesn't ask for – no marks for doing this.

Examiner's comments. This question was generally very well answered, with many candidates achieving maximum marks. Parts (a) and (b) caused few problems. However, some candidates lost marks by not showing their workings for disallowed items when calculating the trading profit. Many candidates wasted time by calculating the corporation tax liability when this was not required. It was pleasing to see that part (c) was also generally well answered, given that the areas covered were not so straightforward as those in parts (a) and (b).

Marking scheme

			Marks
(a)	Depreciation	½	
	Impairment losses (½ each)	1½	
	Gifts (½ each)	1	
	Long service award	½	
	Donations (½ each)	1½	
	Professional fees (½ each)	2½	
	Repairs and renewals (½ each)	1	
	Other expenses (½ each)	1½	
	Disposal of office building	½	
	Loan interest received	½	
	Interest payable	½	
	Capital allowances – Pool	1½	
	– AIA	1	
	– Expensive motor car	2	
	– Short-life asset sold	1½	
	– FYA @ 100%	1	
	– Deduct to compute trading income	½	
			19

(b)	Trading income	½	
	Interest income	1	
	Capital gain	2	
	Gift aid donation	1½	
			5
(c)	**Group relief**		
	Group relief claim	2	
	PCTCT effect	1	
	Rollover relief		
	Rollover relief claim	2	
	PCTCT effect	1	
			6
			30

(a) **Tock-Tick Ltd – trading income**

	£	£
Profit before tax		186,960
Add depreciation	99,890	
impairment loss – recovery from previous years	0	
impairment loss – trade	0	
impairment loss – non-trade	6,200	
gifts to customers – pens (N1)	0	
gifts to customers – hampers (N1)	720	
long service award	0	
gift aid donation (N2)	600	
donation to national charity – not gift aid	250	
donation to local charity	0	
accountancy fees	0	
legal fees – share capital issue	2,900	
legal fees – registering trademark	0	
legal fees – renewing short lease	0	
legal fees – debt collection	0	
legal fees – court action	900	
repairs and renewals – roof (N3)	0	
repairs and renewals – extension (N3)	53,300	
other expenses – counselling on redundancy	0	
other expenses – seconding employee to charity	0	
other expenses – customer entertaining	2,160	
		166,920
		353,880
Less: profit on disposal of office building	78,100	
loan interest	12,330	
CAs (W)	13,380	
		(103,810)
Trading income		250,070

Notes

(1) The gifts of pens are allowable as they cost less than £50 per recipient in the tax year and carry a conspicuous advertisement for the company making the gift. The hampers are not allowed as they are food gifts.

(2) If a donation has been made under the gift aid scheme this is deductible from total income.

(3) The cost of the extension is capital expenditure and therefore is not allowable. The replacement of the roof should be fully allowable so long as it can be shown that the company could not carry on its business at the premises without the repair.

Working: Capital allowances

	FYA@ 100%	AIA	Main Pool	Exp car	SLA	Allowances
	£	£	£	£	£	£
TWDV b/f			12,200	20,800	3,100	
Additions qualifying for AIA						
15.8.09		6,700				
AIA		(6,700)				6,700
Disposals						
28.5.09 Car (cost)				(33,600)		
BC				(12,800)		(12,800)
1.8.09 SLA					(460)	
BA					2,640	2,640
WDA @ 20%			(2,440)			2,440
Additions qualifying for FYA						
7.6.09 Car	14,400					
FYA @ 100%	(14,400)					14,400
TWDV c/f			9,760			
Allowances						13,380

(b) **PCTCT**

	£
Trading income	250,070
Interest income (N)	12,330
Chargeable gain (W)	30,802
	293,202
Less gift aid donation	(600)
PCTCT	292,602

Note.
Interest received is taxed as interest income on accruals basis.

Working

Chargeable gain	£
Proceeds	276,000
Less: cost	(197,900)
Unindexed gain	78,100
Less: IA	(47,298)
Indexed gain	30,802

(c) (i) **Group relief**

Only 9 months of the two companies' accounting periods overlap (1 April 2009 to 31 December 2009) and therefore the maximum group relief available would be the lower of:

(a) 9/12 × Tock-Tick's PCTCT of £292,602 ie £219,452; and
(b) 9/12 × subsidiary's loss of £62,400 ie £46,800.

Therefore Tock-Tick Ltd's total profits before gift aid of £293,202 would be reduced by £46,800 to £246,402. Its PCTCT would therefore be reduced to £245,802.

(ii) **Rollover relief**

The sale proceeds of the disposal of the freehold office building (£276,000) are partially reinvested in the new office building (£260,000).

To the extent that they are not reinvested, £(276,000 – 260,000) = £16,000, the gain remains in charge.

The balance of the gain (£30,802 – 16,000) = £14,802 can be rolled over and thus reduce the company's PCTCT by that amount.

44 Sofa Ltd

Text references. Chapter 18 deals with adjustment of profit for companies. Chapter 22 covers groups.

Top tips. Make sure you read the information given in the question very carefully. You were told the figure to start your adjustment of profit.

Easy marks. The capital allowances computation was straightforward if you used the standard format. The items to be disallowed should also have been well-known.

Examiner's comments. Part (a) of this question was very well answered with only the calculation of the industrial buildings allowance consistently causing problems. A certain amount of bad examination technique was evident as regards the adjustments in computing the trading loss. Some candidates went into far too much detail explaining the adjustments made, thus wasting time, whilst others produced figures without any workings at all. Where no adjustment was necessary, such as for the interest payable, then this fact should have been clearly shown or stated. Most candidates did not answer part (b) very well. Many candidates wasted a lot time by performing detailed calculations showing the amount of group relief that should have been claimed rather than the amount that actually could be claimed.

Marking scheme

				Marks
(a)	*Adjustment to profit*			
	Loss before taxation		½	
	Depreciation		½	
	Accountancy fees		½	
	Legal fees – share capital		½	
	Legal fees – renewal of short lease		½	
	Legal fees – loan relationship		½	
	New wall		½	
	Repair to existing wall		½	
	Business entertaining		½	
	Staff entertaining		½	
	Redundancy counselling		½	
	Health and safety fine		½	
	Profit on sale of shares		½	
	Bank interest receiveable		½	
	Debenture interest payable		1	
	Capital allowances on P&M			
	TWDVs b/f		½	
	Additions qualifying for AIA:	equipment	½	
		fixtures	½	
	AIA		1	
	Special rate pool		1	
	Disposals		1	
	Balancing charge on car		1	
	WDAs		1	
	Additions qualifying for FYA:	low emission car	½	
	FYA @ 100%		½	
	TWDVs c/f		½	
	Allowances		1	
	Industrial buildings allowance			
	Eligible expenditure		1	
	Showroom		1	
	WDA		1	
				20

(b) *Settee Ltd*

Settee Ltd		
Availability of group relief	½	
Corresponding period 1	1	
Corresponding period 2	1	
Couch Ltd		
No group relief – not in 75% group	1	
Futon Ltd		
Availability of group relief	½	
Corresponding period	1	
		5
		25

(a) **Sofa Ltd – tax adjusted trading loss**

	£	£
Loss before taxation		(212,800)
Add: depreciation	87,100	
professional fees: accountancy and audit	0	
professional fees (N1): share capital	7,800	
professional fees (N1): renewal of short lease	0	
professional fees (N1): issue of debentures	0	
repairs and renewals (N2): new wall	9,700	
repairs and renewals (N2): repair to existing wall	0	
other expenses (N3): entertaining suppliers	1,360	
other expenses (N3): entertaining employees	0	
other expenses (N3): counselling on redundancy	0	
other expenses (N3): fine	420	106,380
		(106,420)
Less: profit on sale of shares	4,300	
bank interest – taxed as interest income	8,400	
CAs on plant and machinery (W1)	65,280	
IBAs (W2)	8,000	(85,980)
Tax adjusted trading loss		(192,400)

Notes

1. The legal fees related to the renewal of a short lease (less than 50 years) are allowable. The cost of obtaining loan finance is allowable as a trading expense under the loan relationship rules as the loan was used for trading purposes. The cost of legal fees relating to the issue of share capital is not allowable as it is a capital expense.
2. The cost of the new wall is not allowable because it is a capital expense. The repair to the existing wall is allowable as a revenue expense.
3. Business entertaining is not allowable. Staff entertaining is allowable. Counselling on redundancy is specifically allowable. The health and safety fine is not allowable.

Workings

1 *Capital allowances on plant and machinery*

	FYA @ 100%	*AIA/FYA @ 40%*	*Main pool*	*Exp. car*	*Special rate pool*	*Allowances*
	£	£	£	£	£	£
TWDV b/f			27,800	16,400		
Additions qualifying for AIA/FYA @ 40%						
12.5.09 Equipment		1,400				
10.2.10 Fixtures (N)		44,800				
		46,200				
AIA		(46,200)				46,200
Additions not qualifying for AIA/FYA						
8.6.09 Car					22,200	
2.8.09			10,900			
Disposals						
8.6.09 Car				(17,800)		
BC				(1,400)		(1,400)
8.1.10 Lorry			(7,600)			
18.1.10 Car			(8,800)			
			22,300			
WDA @ 20%			(4,460)			4,460
WDA @ 10%					(2,220)	2,220
Additions qualifying for FYA @ 100%						
19.10.09 Car	13,800					
FYA @ 100%	(13,800)					13,800
TWDV c/f			17,840		19,980	
Allowances						65,280

Note

The sale price put on the fixtures can be an amount up their original cost. Since it has been agreed that Sofa Ltd is to obtain maximum capital allowances on the fixtures, the election must have been the maximum amount possible.

2 *Industrial buildings allowance*

	£
Original cost	558,000
Less: cost of land	(158,000)
Eligible expenditure (note)	400,000

Note

The cost of the showroom is allowable because it is less than 25% of the eligible cost (£400,000 × 25% = £100,000).

WDA = £400,000 × 2% = £8,000

(b) **Settee Ltd**

Group relief is available between Sofa Ltd and Settee Ltd because they are part of a 75% group.

Group relief applies to corresponding accounting periods.

Corresponding period 1 (1 April 2009 to 30 June 2009)

Loss of Sofa Ltd 3/12 x £192,400	£48,100
Profit of Settee Ltd 3/12 × £240,000	£60,000
Maximum group relief is lower of these two figures ie	£48,100

Corresponding period 2 (1 July 2009 to 31 March 2010)

Loss of Sofa Ltd 9/12 × £192,400	£144,300
Profit of Settee Ltd 9/12 x £90,000	£67,500
Maximum group relief is lower of these two figures ie	£67,500

Couch Ltd

There is no group relief available between Sofa Ltd and Couch Ltd because they are not members of a 75% group as Couch Ltd is only a 60% subsidiary.

Futon Ltd

Group relief is available between Sofa Ltd and Futon Ltd because they are part of a 75% group.

Corresponding period (1 January 2010 to 31 March 2010)

Loss of Sofa Ltd 3/12 x £192,400	£48,100
Profit of Futon Ltd	£60,000
Maximum group relief is lower of these two figures ie	£48,100

45 Gastron Ltd

Text references. Chapter 18 deals with adjustment of profit for companies. Chapter 22 covers groups.

Top tips. Make sure that you attempt all parts of a multi-part question such as this.

Easy marks. Once again, the administration aspects of this question should have yielded easy marks.

Examiner's comments. This question was very well answered, with only part (e) consistently causing problems. In part (a) candidates were instructed to list all of the items referred to in the notes, and to indicate by the use of zero any items that did not require adjustment. Candidates are advised that this will be a standard approach in future and they should ensure they follow this instruction to be able to score full marks. Despite the instruction some candidates did not list those items not requiring any adjustment. Parts (a) and (b) were kept separate for a very good reason – namely to help candidates. Therefore those candidates who attempted to combine both parts into one calculation not surprisingly often had problems. It was pleasing to see many candidates correctly calculate the correct figure for capital allowances. Although I can applaud candidate's attempts to save paper, it is not good examination technique to try and squeeze a capital allowances computation of this size into 5 or 6 lines at the end of a page. In part (c) a disappointing number of candidates gave 31 January as the payment date. Only a few candidates appreciated that interest would be due, and fewer still correctly calculated the actual amount payable. In part (d) most candidates appreciated that a 75% shareholding was necessary, but were then often unsure where the 50% limit fitted in. The holding company must have an effective interest of 50%. In part (e) many candidates simply stated that losses could be set against profits, without making any attempt to use the information given in the question.

Marking scheme

			Marks
(a)	Profit before taxation	½	
	Depreciation	½	
	Amortisation of leasehold property	½	
	Gifts of pens to customers	½	
	Gifts of hampers to customers	½	
	Donation	½	
	Legal fees re renewal of lease	½	
	Legal fees re issue of debentures	½	
	Entertaining suppliers	½	
	Entertaining employees	½	
	Lease premium – Assessable amount	1½	
	– Deduction	1	
	Income from investments	1	
	Disposal of shares	½	
	Interest payable	½	
	P & M – Pool with WDA	2	
	– AIA	1½	
	– Expensive motor car	1	
	– FYA @ 100%	1	
			15
(b)	Trading profit	½	
	Property business profit	2	
	Bank interest	½	
	Chargeable gain	½	
	Franked investment income	1	
	Group dividends	½	
	Corporation tax	2	
			7
(c)	Due date	1	
	Interest	2	
			3
(d)	75% shareholding	1	
	50% effective interest	1	
			2
(e)	Time limit	1	
	Set off of capital losses	1	
	Tax rate	1	
			3
			30

(a) **Gastron Ltd – Trading profit for the year ended 31 March 2010**

	£	£
Profit before taxation		640,000
Add		
Depreciation	85,660	
Amortisation of leasehold property	6,000	
Gifts of pens to customers (N1)	1,200	
Gifts of hampers to customers (N1)	1,100	
Donation to local charity	0	
Legal fees re renewal of lease (2)	0	
Legal fees re issue of debentures	0	
Entertaining suppliers (N3)	1,300	
Entertaining employees (N3)	0	
		95,260
Deduct		
Lease premium (W1)	4,920	
Income from property	20,600	
Bank interest	12,400	
Dividends	54,000	
Profit on disposal of shares	80,700	
Interest payable (N4)	0	
Capital allowances (W2)	62,640	
		(235,260)
Trading profit		500,000

Notes

1 Gifts to customers are only 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.

2 The costs of renewing a short-lease (less than 50 years) and of obtaining loan finance are allowable.

3 The only exception to the non-deductibility of entertainment expenditure is when it is in respect of employees.

4 Interest on a loan used for trading purposes is deductible in calculating the trading loss on an accruals basis.

Workings

1 The office building has been used for business purposes, and so the proportion of the lease premium assessed on the landlord can be deducted, spread over the life of the lease.

The amount assessed on the landlord is £49,600 calculated as follows:

	£
Premium received	60,000
Less: £60,000 × 2% × (10 – 1)	(10,800)
	49,200

This is deductible over the life of the lease, so the deduction for the year ended 31 March 2010 is £(49,200/10) = £4,920.

2 *Plant and machinery*

	FYA @ 100%	AIA/FYA @ 40%	Main Pool	Expensive motor car	Allowances
	£	£	£	£	£
TWDV b/f			16,700	18,400	
Additions qualifying for AIA/FYA					
Equipment		21,600			
Lorry		17,200			
		38,800			
AIA		(38,800)			38,800
Addition not qualifying for AIA/FYA					
Motor car			9,800		
			26,500		
Disposal					
Equipment (N)			(3,300)		
			23,200		
WDA @ 20%			(4,640)		4,640
WDA - restricted				(3,000)	3,000
			18,560		
Addition qualifying for 100% FYA					
Motor car	16,200				
FYA @ 100%	(16,200)				16,200
TWDV c/f			18,560	15,400	
Total allowances					62,640

Note

The cost of the equipment sold will have originally been added to the pool, so the disposal proceeds of £3,300 are deducted from the pool.

(b) **Gastron Ltd – Corporation tax computation for the year ended 31 March 2010**

	£
Trading profit	500,000
Property business profit (W1)	12,800
Bank interest	12,400
Chargeable gain	74,800
Profits chargeable to corporation tax	600,000
Franked investment income £36,000 × 100/90 (N)	40,000
Profits	640,000
Corporation tax £600,000 @ 28%	168,000
Marginal relief 7/400 (750,000 – 640,000) × 600,000/640,000 (W2)	(1,805)
	166,195

Note

Group dividends are not included as franked investment income.

Workings

1 The property business profit is £12,800 calculated as follows:

	£	£
Rent receivable – First tenant £1,800 × 9		16,200
– Second tenant £1,950 × 2		3,900
		20,100
Impairment loss £1,800 × 2	3,600	
Decorating	3,700	
		(7,300)
		12,800

2 Gastron Ltd has one associated company, so the upper limit is reduced to £750,000 (£1,500,000/2).

(c) (1) Gastron Ltd's corporation tax liability for the year ended 31 March 2010 must be paid by 1 January 2011.

(2) If the company does not pay its corporation tax until 31 August 2011, then interest of £166,195 @ 2.5% × 8/12 = £2,770 will be charged by HM Revenue and Customs for the period between 1 January 2011 and 31 August 2011.

(d) (1) Companies form a capital gains group if at each level in the group structure there is a 75% shareholding.

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

(e) (1) Gastron Ltd and Culinary Ltd must make the election by 31 March 2012 (within two years of the end of the accounting period in the gain arose).

(2) The election will enable the capital gain of £74,800 to be set off against capital loss of £66,000.

(3) It is also beneficial for the balance of the chargeable gain of £(74,800 – 66,000) = £8,800 to arise in Culinary Ltd as it will only be taxed at the rate of 21%, instead of at the marginal rate (29.75%) in Gastron Ltd.

46 Lithograph Ltd

Text references. Chapters 25 and 26 deal with VAT.

Top tips. Read the question carefully to determine whether the figures you have been given include the VAT or not.

Marking scheme

				Marks
(a)	Monthly payments		½	
	Based on prior year		½	
	10%		½	
	Months 4 to 12		½	
	Calculation		1	
				3
(b)	(i)	Sales @ 15%	½	
		Office equipment sale @ 15%	½	
		Fuel scale charge @ 3/23	1	
		Purchases	½	
		Expenses	½	
		Machinery	½	
		Bad debt	1	
		Output VAT less input VAT @ 15%	½	
				5
	(ii)	Balancing payment	1	
		Due date	1	
				2
				10

(a) Monthly payments on account

As Lithograph Ltd uses the annual accounting scheme it will be paying monthly payments on account based on its previous year's liability.

It will make payments in months 4 to 12 of its VAT accounting period, each payment being 10% of the previous year's liability.

Lithograph Ltd will therefore have made payments of 10% x £10,200 = £1,020 from April 2009 to December 2009.

(b) (i) **VAT for y/e 31 December 2009**

Output VAT	£		£
Sales	160,000	@ 15%	24,000
Office equipment sale	8,000	@ 15%	1,200
Fuel scale charge (N1)	1,385	@$^3/_{23}$	181
			25,381
Less: Input VAT			
Purchases	38,000		
Expenses			
28,000 – 3,600 (N2)	24,400		
Machinery purchase	24,000		
Bad debt (N3)	4,800		
	91,200	@ 15%	(13,680)
VAT due			11,701

Notes

1 Fuel scale charge

As the whole of the fuel VAT expense, including private fuel, has been deducted (included in the expenses) we need to restrict by using the fuel scale charge.

As this is a VAT inclusive figure we need to adjust by multiplying by $^3/_{23}$

2 Expenses

Customer entertaining is never allowable for VAT purposes.

3 Bad debt

As the debt is over 6 months old and has been written off in the company's books, it is possible to claim bad debt relief.

(ii) **Balancing payment and due date**

The balancing payment due would be:

	£
VAT due	11,701
Less: paid on account (9 payments)	(9,180)
Due by 28 February 2010	2,521

47 Tardy Ltd

Text references. VAT is covered in Chapters 25 and 26.

Top tips. Do not ignore the administrative side of VAT as most exam questions will test both numerical and written aspects of the tax.

Easy marks. Bad debts are often examined and the conditions and how to deal with the debts should have been easy marks. The examiner frequently mentions that students are weak at applying their knowledge to the given facts in a question. Part (a) dealt with default surcharge. You need to outline which returns were in default but **also** discuss the impact of the default. There were 7 marks for doing this – easy marks for the knowledgeable student.

Examiner's comments. Part (a) caused problems for a number of candidates. The main problem was that candidates explained the default surcharge rules, without applying them to the information given. Many candidates did not appreciate that the submission of four consecutive VAT returns on time resulted in a clean default surcharge record.

Marking scheme

			Marks
(a)	Quarter ended 30 September 2007	1	
	Quarter ended 31 December 2007	1	
	Quarter ended 30 June 2008	1½	
	Quarter ended 30 September 2008	1	
	Extension of surcharge period	½	
	Four consecutive VAT returns on time	1	
	Quarter ended 31 December 2009	1	
			7
(b)	Limits for errors that can be corrected on next VAT return	2	
	Notify in writing	1	
			3
			10

(a) **Surcharge Liability Notices**

Following the first default for the quarter ended 30 September 2007, a Surcharge Liability Notice (SLN) will have been issued for a period of 12 months ie to 30 September 2008. There is no penalty at this stage.

When Tardy Ltd defaulted for the quarter ended 31 December 2007, which fell within the SLN period, there will have been a surcharge of 2% of the outstanding tax, ie £644 (£32,200 × 2%). The SLN period would have been extended until 31 December 2008.

T Ltd is late again for the quarter ended 30 June 2008. The SLN period will now extend until 30 June 2009. The surcharge would strictly be 5% of the unpaid VAT, £170 (as it is the second default within the period to 31 December 2008). However, as this is would be less than the de minimis limit of £400, no surcharge assessment would have been issued.

The next return for the quarter ended 30 September 2008 is also late, so the SLN period would be extended to 30 September 2009. However there would be no surcharge as there is a repayment due and only late payment incurs a surcharge.

The next four returns for the period to 30 September 2009 are submitted on time and therefore the SLN period expires on 30 September 2009.

The return for the quarter ended 31 December 2009 is late. The company has had a clean record for one whole 12 months period and therefore the SLN period starts again, running to 31 December 2010, and there will be no surcharge for this default.

(b) **Disclosure of Errors**

Errors can be corrected on the next VAT return if they do not exceed the greater of

- £10,000 (net error)
- 1% of net VAT turnover for the return period (maximum £50,000).

Other errors should be notified to HMRC in writing eg by letter.

48 Ram-Rom Ltd

Text references. VAT is dealt with in Chapters 25 and 26.

Top tips. In part (a) you are given the input VAT recoverable so you must make sure that your answer reconciles with this figure. For part (b), make a rough list of the contents of the VAT invoice and then see which items are missing from the sample invoice given.

Easy marks. There were plenty of easy marks in this question. You should have been able to work out the items for part (a) since the examiner gave the amount of input tax recovered. Discounts are often examined, so you should ensure that you are very familiar with them.

Examiner's comments. Candidates often failed to show their workings of how they calculated pre-registration input VAT.

Marking scheme

			Marks
(a)	Goods – explanation	1	
	– stock	½	
	– fixed assets	1½	
	Services – explanation	½	
	– calculation	1½	5
(b)	Registration number	½	
	Invoice number	½	
	Rate of VAT	½	
	VAT exclusive amount	½	
	Total VAT exclusive price	½	
	Total VAT	½	3
(c)	Charge to VAT	1	
	No change if not taken up	1	2
			10

(a) Input VAT recovery – pre registration inputs

Input VAT is recoverable on goods if they are:

- Acquired within 4 years prior to registration
- For business purposes
- Not supplied onwards or consumed prior to registration

	£
Fixed assets – January 2009 acquisition £42,000 × 15%	6,300
– August 2009 acquisition £66,600 × 15%	9,990
Stock still held £92,000 × 15%	13,800
Input VAT on goods recoverable	30,090

Input VAT is recoverable on services if they are:

- Supplied within six months prior to registration
- For purposes of business

	£
March 2009	7,400
April 2009	6,300
May 2009	8,500
June 2009	9,000
July 2009	9,200
August 2009	8,200
	48,600

× 15% = £7,290

Total VAT recoverable £(30,090 + 7,290) = £37,380

(b) Alterations to invoice – must include

- Registration number
- Invoice number
- Rate of VAT for each supply of goods
- VAT exclusive amount for each supply of goods
- Total invoice price excluding VAT
- The total amount of VAT

(c) Where a discount is offered for prompt payment, VAT is chargeable on the net amount, regardless of whether the discount is taken up.

49 Sandy Brick

Text references. Chapters 25 and 26 for VAT.

Top tips. As with any question which requires a calculation, setting out the figures in a proforma will help both you and the examiner marking your paper.

Easy marks. The tax point and invoice issuing rules were easy marks.

Examiner's comments. Well answered but some candidates were penalised for not clearly showing which of their calculations were output VAT and which were input VAT.

Marking scheme

	Marks
Sales – VAT registered customers	1½
– Non-VAT registered customers	1½
Advance payment	1
Materials	1
Office equipment	2
Telephone	1
Motor repairs	1
Equipment	1
	10

VAT return

	£	£
Output VAT		
Sales to VAT registered customers		
£(44,000 × 95%) = £41,800 × 17.5%		7,315
Sales to non-VAT registered customers		
£(16,920 – 5,170) = £11,750 × 7/47		1,750
Payment on account		
£5,000 × 7/47		745
Total output VAT		9,810
Less: Input VAT		
Materials £(11,200 – 800) = £10,400 × 17.5%	1,820	
Office equipment £120 × 9 × 17.5%	189	
Telephone £(400 × 70%) = 280 × 17.5%	49	
Motor repairs £920 × 17.5%	161	
Equipment £6,000 × 17.5%	1,050	(3,269)
Net VAT payable		6,541

Notes

(1) Pre-registration VAT can be recovered on services for six months before the registration date. Therefore 9 months of input tax can be recovered.

(2) If a car is used for business purposes, then any VAT charged on repairs and maintenance costs can be treated as input tax. No apportionment has to be made for private use.

50 Annie Attic

Text references. Chapters 25 and 26 for VAT.

Top tips. Make sure that you read all the information given in the question – you are given this information by the examiner for a reason so you must make use of it when answering the question.

Easy marks. The due date for payment of VAT was an easy mark.

Examiner's comments. In part (a) candidates often did not appreciate that the calculation of output VAT on credit sales had to take account of the discount for prompt payment even if it was not taken by customers. In part (b) the answers of many candidates lacked sufficient depth to gain full marks. For example, the turnover limit of £1,350,000 was usually known, but only a minority of candidates correctly stated that it applied for the following 12-month period. The same comment applies to part (c). For example, candidates generally appreciated that the taxpayer's VAT registration would be cancelled, but few stated that the reason for the cancellation was the cessation of making taxable supplies. Many candidates stated that on a sale of the business as a going concern the VAT registration could be taken over by the purchaser despite the question clearly stating that the purchaser was already registered for VAT.

Marking scheme

			Marks
(a)	Output VAT – Cash sales	1	
	– Credit sales	1½	
	Input VAT – Purchases and expenses	1	
	– Impairment loss	1½	
	Due date	1	
			6
(b)	Limit	1	
	VAT returns and VAT payments	1	
	Output VAT	1	
	Input VAT	1	
	Bad debt relief	1	
			5
(c)	(i) *Sale of assets on a piecemeal basis*		
	Cancellation of VAT registration	1	
	Output VAT	1	
			2
	(ii) *Sale of business as a going concern*		
	Cancellation of VAT registration	1	
	Output VAT not due	1	
			2
			15

(a) **VAT return – Quarter ended 30 November 2009**

	£	£
Output VAT		
Cash sales £28,000 × 15%		4,200
Credit sales £12,000 × 95% × 15% (N1)		1,710
Input VAT		
Purchases and expenses £11,200 × 15%	1,680	
Impairment loss £800 × 95% × 15% (N2)	114	
		(1,794)
VAT payable		4,116

The VAT return for the quarter ended 30 November 2009 should have been submitted by 31 December 2009 (one month after the end of the VAT period).

Notes

(1) The calculation of output VAT on the credit sales takes into account the discount for prompt payment, even for those 10% of customers that did not take it.

(2) 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 2009. Relief is based on the amount of output VAT that would originally have been paid, taking into account the discount for prompt payment.

(b) Anne can use the cash accounting scheme if her expected taxable turnover for the next 12 months does not exceed £1,350,000. Anne must also be up-to-date with her VAT returns and VAT payments.

Output VAT on most credit sales will be accounted for up to one month later than at present since the scheme will result in the tax point becoming the date that payment is received from customers. However, the recovery of input VAT will be delayed by two months.

The scheme will provide automatic bad debt relief should a credit sale customer default on the payment of a debt.

(c) (i) **Sale of assets on a piecemeal basis**

On the cessation of trading Anne will cease to make taxable supplies, so her VAT registration will be cancelled on the date of cessation or an agreed later date.

Output VAT will be due in respect of the value of the fixed assets at the date of deregistration on which VAT has been claimed (although output VAT is not due if it is less than £1,000).

(ii) **Sale of business as a going concern**

Since the purchaser is already registered for VAT, Anne's VAT registration will be cancelled as above.

A sale of a business as a going concern (TOGC) is outside the scope of VAT and therefore output VAT will not be due.

Mock exams

ACCA

Paper F6

Taxation (United Kingdom)

Mock Examination 1

Question Paper	
Time allowed	
Reading and Planning	**15 minutes**
Writing	**3 hours**
ALL FIVE questions are compulsory and MUST be attempted.	

During reading and planning time only the question paper may be annotated.

DO NOT OPEN THIS PAPER UNTIL YOU ARE READY TO START UNDER EXAMINATION CONDITIONS

ALL FIVE questions are compulsory and MUST be attempted

Question 1

On 31 December 2009 Mark Kett ceased trading as a marketing consultant. He had been self-employed since 6 April 2003, and had always made his accounts up to 5 April. On 1 January 2010 Mark commenced employment as the marketing manager of Sleep-Easy plc. The company runs a hotel. The following information is available for the tax year 2009/10:

Self-employment

(1) Mark's tax adjusted trading profit for the nine-month period ended 31 December 2009 is £20,700. This figure is before taking account of capital allowances.

(2) The tax written down values for capital allowances purposes at 6 April 2009 were as follows:

	£
Main pool	13,800
Expensive motor car	14,600

The expensive motor car was used by Mark, and 40% of the mileage was for private purposes.

(3) On 15 June 2009 Mark had purchased office furniture for £1,900. All of the items included in the general pool were sold for £18,800 on 31 December 2009. On the cessation of trading Mark personally retained the expensive motor car. Its value on 31 December 2009 was £11,800.

Employment

(1) Mark is paid a salary of £3,250 (gross) per month by Sleep-Easy plc, from which income tax of £620 per month has been deducted under PAYE.

(2) During the period from 1 January 2010 to 5 April 2010 Mark used his private motor car for business purposes. He drove 2,500 miles in the performance of his duties for Sleep-Easy plc, for which the company paid an allowance of 16 pence per mile. The relevant HM Revenue & Customs authorised mileage rate to be used as the basis of an expense claim is 40 pence per mile.

(3) On 1 January 2010 Sleep-Easy plc provided Mark with an interest free loan of £64,000 so that he could purchase a new main residence.

(4) During the period from 1 January 2010 to 5 April 2010 Mark was provided with free meals in Sleep-Easy plc's staff canteen. The total cost of these meals to the company was £400.

Property income

(1) Mark let out a furnished property throughout the tax year 2009/10. He received gross rents of £8,600, 5% of which was paid to a letting agency. During December 2009 Mark spent £540 on replacing dilapidated furniture and furnishings.

(2) From 6 April 2009 to 31 December 2009 Mark let out a spare room in his main residence, receiving rent of £350 per month.

Investment income

(1) During the tax year 2009/10 Mark received dividends of £2,880, interest from government stocks (gilts) of £4,900, and interest of £430 from an individual savings account (ISA). These were the actual cash amounts received.

(2) On 3 May 2009 Mark received a premium bond prize of £100.

Other information

(1) On 15 December 2009 Mark made a gift aid donation of £800 (net) to a national charity.
(2) Mark's payments on account of income tax in respect of the tax year 2009/10 totalled £11,381.

Required

(a) Compute the income tax payable by Mark for the tax year 2009/10 and the balancing payment or repayment that will be due for the year. **(22 marks)**

(b) Advise Mark as to how long he must retain the records used in preparing his tax return for the tax year 2009/10, and the potential consequences of not retaining the records for the required period. **(3 marks)**

(Total = 25 marks)

Question 2

(a) Hipster Ltd commenced trading on 1 April 2009 as a clothing manufacturer, preparing its first accounts for the six-month period ended 30 September 2009. The following information is available:

Trading profit

The tax adjusted trading profit is £333,575. This figure is before making any tax adjustments required for:

(1) Capital allowances.

(2) The premium paid in respect of the leasehold property.

(3) Advertising expenditure of £4,600. This expenditure was incurred during March 2009 and was deducted in arriving at the accounting profit for the period ended 30 September 2009.

Plant and machinery

The following purchases and disposals of plant and machinery took place in respect of the six-month period ended 30 September 2009:

		Cost/proceeds
		£
10 February 2009	Purchased equipment	8,900
12 April 2009	Purchased machinery	22,140
29 June 2009	Purchased motor car (1) CO_2 emissions 150g/km	11,600
18 July 2009	Purchased motor car (2) CO_2 emissions 120g/km	14,800
7 August 2009	Purchased equipment	7,700
28 September 2009	Sold motor car (2)	(11,300)
28 September 2009	Purchased motor car (3) CO_2 emissions 175g/km	18,500

Industrial building

Hipster Ltd purchased a new factory from a builder on 1 April 2009 for £460,000, and this was immediately brought into use. The cost was made up as follows:

	£
Land	112,000
Factory	220,000
Canteen for employees	38,000
Showroom	90,000
	460,000

Leasehold property

On 1 April 2009 Hipster Ltd acquired a leasehold office building, paying a premium of £80,000 for the grant of a twenty-year lease. The office building was used for business purposes by Hipster Ltd throughout the six-month period ended 30 September 2009.

Loan interest received

Loan interest of £1,650 was received on 30 September 2009. The loan was made for non-trading purposes.

Profit on disposal of shares

On 28 September 2009 Hipster Ltd sold 5,000 £1 ordinary shares in Bellbottom plc for £23,600. Hipster Ltd had originally purchased 8,000 shares in Bellbottom plc on 8 May 2009 for £3,000. On 21 May 2009 Bellbottom plc made a 1 for 4 bonus issue. The indexation factor from May 2009 to September 2009 is -0.010.

Dividends received

During the period ended 30 September 2009 Hipster Ltd received dividends of £21,600 from Drainpipe plc, an unconnected company. This figure was the actual cash amount received.

Other information

Hipster Ltd has no associated companies.

Required:

Calculate Hipster Ltd's corporation tax liability for the six-month period ended 30 September 2009.

(20 marks)

(b) Victor Ltd has been in business as a hairdresser since 1 June 2007. Its sales from the date of commencement of the business to 30 September 2009 were £5,600 per month. On 1 October 2009 Victor Ltd increased the prices that it charged customers, and from that date its sales have been £6,250 per month. Victor Ltd's sales are all standard rated.

As a result of the price increase, Victor Ltd was required to register for value added tax (VAT) from 1 January 2010. Because all of its customers are members of the general public, it was not possible to increase prices any further as a result of registering for VAT.

Victor Ltd's standard rated expenses are £400 per month.

Where applicable, the above figures are inclusive of VAT.

Required

(i) Explain why Victor Ltd was required to compulsorily register for VAT from 1 January 2010, and state what action it then had to take as regards notifying HM Revenue and Customs of the registration. **(4 marks)**

(ii) Calculate the total amount of VAT payable by Victor Ltd during the year ended 31 December 2010. You should ignore pre-registration input VAT. **(3 marks)**

(iii) Advise Victor Ltd why it would have been beneficial to have used the VAT flat rate scheme from 1 January 2010. Your answer should include a calculation of the amount of VAT that Victor Ltd would have saved for the year ended 31 December 2010 by joining the scheme. The flat rate scheme percentage for hairdressing is 12%. **(3 marks)**

(Total = 30 marks)

Question 3

Sophia Tang, a widow aged 78, has been in business as a sole trader since 1 April 1987. On 31 March 2010 she transferred the business to her daughter Wong, at which time the following assets were sold to Wong:

(1) A freehold shop with a market value of £260,000. The shop had been purchased on 1 July 2003 for £113,000, and has always been used by Sophia for business purposes. Wong paid Sophia £160,000 for the shop.

(2) A freehold warehouse with a market value of £225,000. The warehouse had been purchased on 1 April 1987 for £70,000, and has never been used by Sophia for business purposes. Wong paid Sophia £100,000 for the warehouse.

Where possible, Sophia and Wong have elected to hold over any gains arising. Sophia does not wish to claim entrepreneurs' relief on the disposal of the business.

Sophia also made the following unconnected disposals during the year.

(3) On 10 September 2009 she sold 500 shares in Gum plc, a quoted company, for £6,000. In February 2010 she sold another 700 shares for £9,800. She had acquired 400 shares in July 1993 at £3 per share and another 1,000 shares on 1 September 2000 at £6 per share. In June 2004 Sophia took up her full entitlement of shares on a 1 for 5 rights issue at £4 per share. She purchased 200 shares for £6.50 per share on 25 September 2009.

(4) In June 2009 she sold a house for £350,000. The house had been acquired in June 1988 for £35,000. Sophia used the house as her main residence until June 1992 when she went to work overseas. She returned to the house in June 1994 and lived there until June 1996. Sophia went travelling for a year, returning in June 1997 when she moved into the house owned by her fiancé. The property was let from June 1997 up to the date of sale. The remainder of the time it was empty.

She made no other capital disposals in the 2009/10 tax year and has losses brought forward of £12,350.

Required

Calculate Sophia's capital gains tax liability for the tax year 2009/10 and state when it is due. **(20 marks)**

Question 4

Li Fung commenced in self-employment on 1 October 2005. She initially prepared accounts to 30 June, but changed her accounting date to 31 March by preparing accounts for the nine-month period to 31 March 2009. Li's trading profits since she commenced self-employment have been as follows:

	£
Nine-month period ended 30 June 2006	18,600
Year ended 30 June 2007	24,900
Year ended 30 June 2008	22,200
Nine-month period ended 31 March 2009	16,800
Year ended 31 March 2010	26,400

Required

(a) State the qualifying conditions that must be met for a change of accounting date to be valid. **(3 marks)**

(b) Compute Li's trading income assessments for each of the five tax years, 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10. **(9 marks)**

(c) Advise Li of the advantages and disadvantages for tax purposes of changing her accounting date from 30 June to 31 March. **(3 marks)**

(Total = 15 marks)

Question 5

Andrew Zoom is a cameraman who started working for Slick-Productions Ltd on 6 April 2009. The following information is available in respect of the year ended 5 April 2010:

(1) Andrew received gross income of £50,000 from Slick-Productions Ltd. He works a set number of hours each week and is paid an hourly rate for the work that he does. When Andrew works more than the set number of hours he is paid overtime.

(2) Andrew is under an obligation to accept the work offered to him by Slick-Productions Ltd, and the work is carried out under the control of the company's production manager. He is obliged to do the work personally, and this is all performed at Slick-Productions Ltd's premises.

(3) All of the equipment that Andrew uses is provided by Slick-Productions Ltd.

Andrew has several friends who are cameramen, and they are all treated as self-employed. He therefore considers that he should be treated as self-employed as well in relation to his work for Slick-Productions Ltd.

Required

(a) List those factors that indicate that Andrew Zoom should be treated as an employee in relation to his work for Slick-Productions Ltd rather than as self-employed.

Note: you should confine your answer to the information given in the question. **(4 marks)**

(b) Calculate Andrew Zoom's income tax liability and national insurance contributions for the tax year 2009/10 if he is treated:

(i) As an employee in respect of his work for Slick-Productions Ltd;

Note: You are not required to calculate employers' national insurance contributions. **(3 marks)**

(ii) As self-employed in respect of his work for Slick-Productions Ltd. **(3 marks)**

(Total = 10 marks)

Answers

DO NOT TURN THIS PAGE UNTIL YOU HAVE COMPLETED THE MOCK EXAM

A plan of attack

What's the worst thing you could be doing right now if this was the actual exam paper? Sharpening your pencil? Wondering how to celebrate the end of the exam in about 3 hours time? Panicking, flapping and generally getting in a right old state?

Well, they're all pretty bad, so turn back to the paper and let's sort out a **plan of attack**!

First things first

You have fifteen minutes of reading time. Spend this looking carefully through the questions and deciding the order in which you will attempt them. As a general rule you should attempt the questions that you find easiest first and leave the hardest until last. Depending on how confident you are we recommend that you follow one of the following two options:

Option 1 (if you're thinking 'Help!')

If you're a bit worried about the paper, do the questions in the order of how well you think you can answer them. You may find the shorter questions less daunting than the longer questions. Alternatively, you may feel better prepared for questions 1 and 2 and wish to start there.

- The requirements for question 1 are broken down into parts which should help you to allocate your time. You could start with part (b) if you knew the answer to this part. Ensure you use the correct pro-forma in part (a) even of you cannot fill every number in.
- Question 2 is also broken down into parts. Make sure you make a good attempt at the corporation tax AND the VAT aspects.
- Approach Question 3 by breaking it down into parts. Calculate each gain, deal with losses and then work out the tax due.
- Question 4 is change of accounting date question. If you find this topic hard, it might be worth leaving this question until last.
- Question 5 is a question comparing employment and self-employment. Even if you couldn't remember all of the distinctions between them for part (a), you should have been able to do the simple computations in part (b).

Lastly, what you mustn't forget is that you have to **answer all of the questions in the paper. They are all compulsory**. Do not miss out any questions or you will seriously affect your chance of passing the exam.

Option 2 (if you're thinking 'It's a doddle')

It never pays to be over confident but if you're reasonably confident about the exam then it is best to work through the questions sequentially starting with question 1.

No matter how many times we remind you....

Always, always **allocate your time** according to the marks for the question in total and then according to the parts of the question. And **always**, **always follow the requirements** exactly. Did you calculate the payment or repayment in Question 1, not just the income tax liability: these was an easy mark and you should make sure you get it.

You've got spare time at the end of the exam.....?

If you have allocated your time properly then you **shouldn't have time on your hands** at the end of the exam. But if you find yourself with five or ten minutes to spare, check over your work to make sure that there are no silly arithmetical errors.

Forget about it!

And don't worry if you found the paper difficult. More than likely other candidates did too. If this were the real thing you would need to **forget** the exam the minute you leave the exam hall and **think about the next one**. Or, if it's the last one, **celebrate**!

Question 1

Text references. Chapters 2, 6 to 9.

Top tips. Set out your proformas in the correct layout to assist the marker to award you maximum marks.

Easy marks. You cannot avoid administration questions in the exam so make sure you learn the rules as they gain you easy marks.

Marking scheme

			Marks
(a)	Trading profit	½	
	Capital allowances – Pool	2	
	– Motor car	2	
	Salary	1	
	Beneficial loan	1	
	Staff canteen	½	
	Expense claim	1½	
	Property business profit	2	
	Furniture and furnishings	½	
	Rent-a-room scheme	1	
	Interest from government stocks	1	
	Dividends	1	
	Individual savings account	½	
	Premium bond prize	½	
	Personal allowance	½	
	Extension of basic rate band	1	
	Income tax	2½	
	Tax suffered at source – PAYE	1	
	– Dividends	1	
	Balancing repayment	1	
			22
(b)	Business records	1	
	Other records	1	
	Penalty	1	
			3
			25

(a) **Mark Kett income tax computation 2009/10**

	Non-savings income	*Savings income*	*Dividend income*	*Total*
	£	£	£	£
Trading income (W1)	22,120			
Employment income (W3)	9,910			
Property income (W6)	7,310			
Gilt interest (received gross)		4,900		
Dividends × 100/90			3,200	
Net income	39,340	4,900	3,200	47,440
Less PA	(6,475)			(6,475)
Taxable income	32,865	4,900	3,200	40,965

Tax

	£
Tax on non-savings income	
£32,865 @ 20%	6,573
Tax on saving income	
£4,535 @ 20%	907
£365 @ 20% (W8)	73
Tax on dividend income	
£635 @ 10% (W8)	64
£2,565 @ 32.5%	834
Tax liability	8,451
Less tax credits	
PAYE (3 × £620)	(1,860)
Dividends	(320)
Tax payable	6,271
Less POAs	(11,381)
Repayment due from HMRC	(5,110)

Note. Both the ISA interest and premium bond winnings are exempt from tax.

Workings

1 *Trading income*

	£
Trading profit	20,700
Balancing charge (W2)	1,420
	22,120

2 *Capital allowances*

	Main pool	*Exp car (60%)*		*CAs*
	£	£		£
TWDV b/f	13,800	14,600		
Additions	1,900			
	15,700	14,600		
Disposal	(18,800)	(11,800)		
Balancing charge	(3,100)			(3,100)
Balancing allowance		2,800	@ 60%	1,680
No WDA in year of cessation				
Balancing charge				(1,420)

3 *Employment income*

	£
Salary (1.1.10 – 5.4.10)	9,750
Loan (W5)	760
Canteen meals – not taxable	nil
Less mileage deduction (W4)	(600)
Employment income	9,910

4 *Mileage allowance*

	£
Company pays: 2,500 @ 16p	400
Less: mileage allowance	
2,500 @ 40p	(1,000)
Deduction (expense claim)	600

5 *Loan*

£64,000 × 4.75% × 3/12 = £760

6 *Property income*

	£
Income	
Rent	8,600
Less expenses	
letting agent fees	(430)
wear & tear (£8,600 @ 10%)	(860)
	7,310

Note. There is no relief for expenditure on furniture as wear and tear allowance is given.

7 *Rent-a-room relief*

Received: £350 × 9 = £3,150

This is below the limit of £4,250 and therefore this income will be exempt.

8 *Basic rate band*

Extended by gift aid: £800 × 100/80 = £1,000

(b) **Retaining records**

(i) As Mark has self employment and property income he must retain his records for five years and ten months from the end of the tax year ie until 31 January 2016.

(ii) He must also retain the records for his other income until this date (even though the usual period would be one year ten months).

(iii) If he does not retain his records for this period of time HMRC can fine him up to £3,000 (although this is usually only collected in serious cases).

Question 2

Text references. Calculation of PCTCT and CT in Chapters 18 and 19. Chapter 8 for IBAs and capital allowances. VAT in Chapters 25 and 26.

Top tips. It is important that you learn how to deal with industrial buildings allowances as they are regularly tested. Make sure you include supporting workings. Ensure you make a good attempt at both parts of the question.

Easy marks. It is useful to learn the proforma for calculating plant and machinery allowances as this will improve the layout of your answer. The registration aspects of VAT are easy marks.

Marking scheme

				Marks
(a)	Trading profit		½	
	Pre-trading expenditure		1	
	P&M	– Main pool	1	
		– AIA	1	
		– FYA	1	
		– Car additions	1	
		– Car disposal	½	
		– WDAs for 6 months	1	
	IBA	– Land	½	
		– Showroom	1	
		– Allowable expenditure	1	
		– IBA	1	
	Lease premium	– Assessable amount	1½	
		– Deduction	1½	
	Loan interest		½	
	Capital gain	– Purchase	½	
		– Bonus issue	½	
		– Indexation	½	
		– Disposal	1	
		– Chargeable gain	1	
	Franked investment income		1	
	Corporation tax		1½	
				20
(b)	(i)	Registration limit	1	
		30 November 2009	1	
		Date of registration	1	
		Notification	1	
				4
	(ii)	Output VAT	1	
		Input VAT	1	
		VAT payable	1	
				3
	(iii)	Simplified administration	1	
		VAT payable	1	
		VAT saving	1	
				3
				30

(a) **Hipster Ltd – Corporation tax liability – 6 month ended 30 September 2009**

	£	£
Trading profit (W1)		296,824
Loan interest		1,650
Capital gains (W5)		22,100
PCTCT		320,574
Corporation tax (W6)		
FY 2009:		
£320,574 × 28%		89,761
Less: 7/400 (750,000 – 344,574) × (320,574/344,574)		(6,601)
CT liability		83,160

Workings

1 *Trading profit*

	£
Adjusted profit	333,575
Less: capital allowances (W2)	(32,931)
IBAs (W3)	(2,580)
lease premium (W4)	(1,240)
	296,824

Note. The advertising expenditure incurred in March 2009 is pre-trading, and is treated as incurred on 1 April 2009. No adjustment is required.

2 *Plant and machinery*

	AIA / FYA	*Main pool*	*Special rate pool*	*Allowances*
	£	£		£
Additions qualifying for AIA/FYA				
10.2.09	8,900			
12.4.09	22,140			
07.8.09	7,700			
	38,740			
AIA £50,000 x 6/12	(25,000)			25,000
	13,740			
FYA @ 40%	(5,496)			5,496
	8,244			
Additions not qualifying for AIA/FYA				
29.6.09 Car		11,600		
18.7.09 Car		14,800		
28.9.09 Car			18,500	
Disposal				
28.9.09		(11,300)		
		15,100		
WDA @ 20% × 6/12		(1,510)		1,510
WDA @ 10% × 6/12			(925)	925
Transfer balance to pool	(8,244)	8,244		
TWDV c/f		21,834	17,575	
Allowances				32,931

3 *IBAs*

Allowable cost	£
Expenditure	460,000
Less land	(112,000)
Total cost	348,000

Expenditure on showroom is not allowed as it exceeds 25% × total cost.

IBA: 2% × (£348,000 – £90,000) × 6/12 = £2,580

The IBA is restricted to 6/12 because the accounting period is 6 months long.

4 *Lease premium*

	£
Premium (P)	80,000
Less: 2% × (n – 1) × P	
2% × (20 – 1) × 80,000	(30,400)
Taxable as landlords income	49,600

This amount is deductible for the company over the life of the lease:

$$\frac{£49,600}{20} = £2,480$$

Allowable on an accruals basis, ie 1 April 2009 to 30 September 2009 = 6/12 × £2,480 = £1,240

5 *Chargeable gain*

	Number	*Cost*	*Indexed cost*
		£	£
Purchase May 2009	8,000	3,000	3,000
Bonus issue 1:4	2,000		
Indexation to September 2009			
£3,000 × 0 (cannot use negative factor)			0
	10,000	3,000	3,000
Disposal September 2009			
Cost × 5,000/10/000	(5,000)	(1,500)	(1,500)
Balance carried forward	5,000	1,500	1,500

	£
Disposal proceeds	23,600
Less: cost	(1,500)
Unindexed gain	22,100
Less: indexation £(1,500 – 1,500)	(0)
Indexed gain	22,100

6 *'Profits'*

	£
Profits chargeable to corporation tax	320,574
FII (£21,600 × 100/90)	24,000
'Profits'	344,574

	FY 2009 6 months to 30 September 2009
PCTCT	320,574
'Profits'	344,574
Lower limit	
£300,000 × 6/12	150,000
Upper limit	
£1,500,000 × 6/12	750,000

Marginal relief applies.

(b) (i) A trader becomes liable to register for VAT if the value of taxable supplies in any period up to 12 months exceeds £68,000.

This happened on 30 November 2009 when taxable supplies amounted to:

	£
December 2008 – September 2009 (10 × £5,600)	56,000
October – November 2009 (2 × £6,250)	12,500
Total taxable supplies	68,500

Victor Ltd was required to notify HMRC within 30 days of the end of the month in which the £68,000 was exceeded, that is by 30 December 2009.

It was then registered with effect from the end of the month following the month in which the £68,000 limit was exceeded, that is, from 1 January 2010.

(ii)

	£
Output VAT £6,250 × 12 = £75,000 × 7/47	11,170
Less input VAT £400 × 12 = £4,800 × 7/47	(715)
Total VAT payable	10,455

(iii) Using the flat rate scheme will simplify Victor Ltd's administration. It will not have to issue VAT invoices since none of its customers are registered for VAT.

Since Victor Ltd first registers for VAT on 1 January 2010 it is entitled to a 1% reduction in the flat rate scheme percentage for its first year of registration. Thus 11% (12 – 1)% is used.

Under the flat rate scheme, VAT payable would have been 11% × £75,000 = £8,250 to 31 December 2010.

The saving would therefore have been £(10,455 – 8,250) = £2,205 for the year.

Question 3

Text references. Chapters 13 to 16 on CGT.

Top tips. You can answer the final part of the requirement (about the due date for CGT) first. This will ensure that you do not forget to answer this part and lose an easy mark.

Easy marks. The gains on disposals were not difficult to calculate.

Examiner's comments. Confusion over basics. Gift relief given incorrectly.

Marking scheme

		Marks
Shop – MV/cost		1
– gift relief		2
Warehouse – MV/cost		1
Gum plc shares – Match with	(i) Shares bought next 30 days	1
	(ii) Sale in September 2009	1
	(ii) Sale in February 2010	1
– Share pool		2
House – gain		1
– actual occupation		2
– deemed occupation		2
– PPR relief		1
– lettings relief		1
Brought forward loss		1
AE		1
CGT		1
Due date		1
		20

Sophia Tang

	£
Shop (W1)	47,000
Warehouse (W2)	155,000
Gum plc shares (W3) – (i)	1,100
– (ii)	2,114
– (iii)	6,333
House	110,000
Less loss b/f	(12,350)
	309,197
Less annual exemption	(10,100)
Taxable gains	299,097
CGT £299,097 @ 18%	53,837

CGT due 31 January 2011

Workings

1 *Shop*

	£
Market value	260,000
Less: cost	(113,000)
Gain	147,000
Excess sale proceeds over cost £(160,000 – 113,000) chargeable	(47,000)
Gain held over under gift relief	100,000

Gain chargeable = £47,000

2 *Warehouse*

	£
Market value	225,000
Less cost	(70,000)
Gain	155,000

No gift relief is available as the asset is not used in the business.

3 *Gum plc shares*

September 2009

(i) Match with shares purchased on 25 September 2009 (in the next 30 days)

	£
Proceeds 200/500 × £6,000	2,400
Less cost (200 × £6.50)	(1,300)
	1,100

(ii) Match with share pool

	£
Proceeds 300/500 × £6,000	3,600
Less cost (W)	(1,486)
	2,114

February 2010

	£
Proceeds	9,800
Less cost (W)	(3,467)
	6,333

Working

Share pool

	No of shares	*Cost*
		£
July 1993 purchase	400	1,200
September 2000 purchase	1,000	6,000
	1,400	7,200
June 2004 rights issue 1:5 @ £4	280	1,120
	1,680	8,320
September 2009 sale	(300)	(1,486)
	1,380	6,834
February 2010 sale	(700)	(3,467)
c/f	680	3,367

4 *House*

	£
Disposal proceeds	350,000
Less cost	(35,000)
Gain	315,000
Less: PPR relief (note 1) £315,000 × 11/21	(165,000)
	150,000
Less: lettings relief (note 2)	(40,000)
Gain	110,000

Notes

1 *PPR periods*

	Occupation (years)	*Non-Occupation (years)*
June 1988 – June 1992 – actual occupation	4	
June 1992 – June 1994 working overseas (deemed occupation)	2	
June 1994 – June 1996 – actual occupation	2	
June 1996 – June 1997*		1
June 1997 – June 2006 (let)		9
June 2006 – June 2009 – last 36 months	3	
	11	10

The last 36 months of ownership is always treated as a period of deemed occupation.

*Travelling overseas would be deemed occupation under the 4 years absence for any reason rule, but Sophia did not live in the house on her return.

2 *Lettings relief*

Relief available is the lowest of:

		£
(i)	PPR relief	165,000
(ii)	Gain in the let period: £315,000 × 9/21	135,000
(iii)	Maximum	40,000

ie £40,000

Question 4

Text references. Self-employment is covered in Chapters 7 to 9.

Top tips. There are 3 marks for part (a); you should aim to state 3 conditions.

Marking scheme

				Marks
(a)	Notification date		1	
	18 month limit		1	
	Change within five years		1	
				3
(b)	Assessments	– 2005/06	1	
		– 2006/07	1½	
		– 2007/08	1	
		– 2008/09	1½	
		– 2009/10	1	
	Overlap profits	– 1.10.05-5.4.06	1	
		– 1.7.06-30.9.06	1	
		– Relieved in 2008/09	1	
				9
(c)	Basis periods correspond		1	
	Overlap profits		1	
	Disadvantages		1	
				3
				15

(a) **Change of accounting date conditions**

(i) Must notify HMRC by 31 January following the tax year of the change of accounting date.

(ii) The new accounts must not exceed 18 months in length.

(iii) There must not have been a change of accounting date in the previous 5 years unless there is a commercial reason for this later change.

(b) **Trading income assessments**

	£	£
2005/06		
Actual basis: 1.10.05 – 5.4.06		
6/9 × £18,600		12,400
2006/07		
<12 months therefore tax first 12 months		
9m to 30.6.06	18,600	
1.7.06 – 30.9.06: 3/12 × £24,900	6,225	
		24,825
2007/08		
CYB: y/e 30.6.07		24,900

	£	£
2008/09		
Year of change (two periods ending in same tax year)		
Tax both periods and relieve overlap profits		
Y/e 30.6.08	22,200	
9m to 31.3.09	16,800	
21 months worth of profit	39,000	
Less overlap relief (W1) (9 months worth)	(18,625)	
12 months worth of profit		20,375
2009/10		
CYB: y/e 31.3.10		26,400

Working

Overlap profits are any profits that are taxed twice when a business starts (or on a change of accounting date):

		£
1.10.05 – 5.4.06	= 6m	12,400
1.7.06 – 30.9.06	= 3m	6,225
Total	= 9m	18,625

(c) **Advantages and disadvantages of changing accounting date**

Advantages	Disadvantages
All of the overlap profits will be relieved	Tax on the profits of a tax year will be due sooner
The year end will now correspond with the tax year so will make basis periods easier	The profits taxable for a tax year will not be known until after the end of the tax year.
On cessation, only the profits earned in the tax year of cessation will be taxed.	

Question 5

Text references. Employment is covered in Chapters 3 and 4. National insurance contributions are covered in Chapter 12.

Top tips. Don't forget about Class 2 NICs for self-employed individuals.

Easy marks. The calculation of income tax should have been easy marks.

Examiner's comments. This question was very well answered by the majority of candidates. However, in part (a) only a few candidates pointed out that the taxpayer did not take any financial risk or profit from sound management. The only common mistake in part (b) was that candidates often based their NIC calculations on the taxable income figure rather than on employment income or trading profit.

Marking scheme

			Marks
(a)	Control	½	
	Financial risk	½	
	Basis of remuneration	1	
	Sound management	½	
	Required to do the work personally	½	
	Obligation to accept work offered	½	
	Equipment	½	
			4

(b) (i)	*Treated as an employee*		
	Employment income	½	
	Personal allowance	½	
	Income tax liability	½	
	Class 1 NIC	1½	
			3
(ii)	*Treated as self-employed*		
	Income tax liability	½	
	Class 2 NIC	1	
	Class 4 NIC	1½	
			3
			10

(a) **Factors for employment rather than self-employment**

- Andrew is under the control of Slick-Productions Ltd.
- Andrew is not taking any financial risk.
- Andrew works a set number of hours, is paid by the hour and is paid for overtime.
- Andrew cannot profit from sound management.
- Andrew is required to do the work personally.
- There is an obligation to accept work that is offered.
- Andrew does not provide his own equipment.

(b) (i) **Treated as an employee**

Andrew's income tax liability 2009/10

	£
Employment income/net income	50,000
Less: personal allowance	(6,475)
Taxable income	43,525
Income tax	
£	
37,400 @ 20%	7,480
6,125 @ 40%	2,450
43,525	
Income tax liability	9,930

Andrew's National insurance contributions 2009/10

Class 1 NIC

£(43,875 – 5,715) = 38,160 @ 11% + £(50,000 – 43,875) = 6,125 @ 1% = £4,259.

(ii) **Treated as self-employed**

Andrew's income tax liability 2009/10

Andrew's trading profit for 2009/10 will be £50,000, so his income tax liability will be unchanged at £9,930.

Andrew's National insurance contributions 2009/10

Class 2 NIC

52 × £2.40 = £125

Class 4 NIC

£(43,875 – 5,715) = 38,160 @ 8% + £(50,000 – 43,875) = 6,125 @ 1% = £3,114.

ACCA

Paper F6

Taxation (United Kingdom)

Mock Examination 2

Question Paper	
Time allowed	
Reading and Planning	**15 minutes**
Writing	**3 hours**
ALL FIVE questions are compulsory and MUST be attempted.	

During the reading and planning time only the question paper may be annotated.

DO NOT OPEN THIS PAPER UNTIL YOU ARE READY TO START UNDER EXAMINATION CONDITIONS

ALL FIVE questions are compulsory and MUST be attempted

Question 1

(a) Darren Radhill is 40 and Sales Manager for a multi-national company.

For the year 2009/10 he earned a salary of £45,000 from which tax of £12,390 was deducted.

He lives in a house purchased by his employer for £295,000 in 2005, the annual value of which is £3,500. The house was furnished by the company at a cost of £7,500 and Darren pays his employer rent of £1,000 per month.

On 6 October 2009 his employer provided him with an interest free loan of £10,000. At 5 April 2010 the balance outstanding on the loan was £8,000.

In April 2009, Darren had inherited a house on the death of his grandfather and decided to let it as furnished accommodation. The property was in very poor condition and required work to make it habitable. The income and expenses passing through the bank account opened for the property for 2009/10 were:

	£
Rent received	18,000
Land registry fees on transfer	100
Structural repairs to make property habitable	2,500
Water rates	600
Agents booking fees	1,800
Cleaner	1,260

He always claims wear and tear allowance.

In March 2010 Darren received net interest of £2,000 from his UK bank account. During 2009/10 he also received UK dividend income of £450 (net).

Darren's employer does not provide a pension scheme so Darren pays an annual premium of £4,800 (net) into a personal pension scheme. In December 2009 he made a payment of £800 to a registered charity under Gift Aid.

Assume that the official rate of interest for 2009/10 is 4.75%.

Required

(i) Calculate Darren's net assessable income and tax payable for 2009/10. **(15 marks)**

(ii) State the date by which Darren must submit his tax return. Outline the penalties that will apply if he does not submit the return on time. **(5 marks)**

(b) Denzil Dyer has been a self-employed printer since 2006. He has recently registered for value added tax (VAT).

Denzil's sales consist of printed leaflets, which are standard rated. He sells to both VAT registered customers and to non-VAT registered customers.

For a typical printing contract, Denzil receives a 10% deposit at the time that the customer makes the order. The order normally takes fourteen days to complete, and Denzil issues the sales invoice three to five days after completion. Some customers pay immediately upon receiving the sales invoice, but many do not pay for up to two months.

Customers making an order of more than £500 are given a discount of 5% from the normal selling price. Denzil also offers a discount of 2.5% of the amount payable to those customers that pay within one month of the date of the sales invoice.

All of Denzil's printing supplies are purchased from a VAT registered supplier. He pays by credit card and receives a VAT invoice. However, Denzil also purchases various office supplies by cash without receiving any invoices.

Denzil does not use the annual accounting scheme, the cash accounting scheme or the flat rate scheme.

Required:

(i) Advise Denzil as to when he should account for the output VAT relating to a typical standard rated printing supply. **(4 marks)**

(ii) Explain the VAT implications of the two types of discount that Denzil gives or offers to his customers. **(3 marks)**

(iii) Advise Denzil of the conditions that will have to be met in order for him to recover input VAT. You are not expected to list those goods and services for which input VAT is non-recoverable. **(3 marks)**

(Total = 30 marks)

Question 2

Helium Ltd is a UK resident company. Helium operates in the UK, and via two overseas branches in the countries Argon and Boron. The following information is available for Helium Ltd for the year ended 31 March 2010:

Trading income

The trading profit is £100,000. This figure is before taking account of capital allowances.

Industrial building

Helium Ltd had a new factory constructed on 1 July 2009 at a cost of £380,000. The factory was immediately brought into industrial use.

The cost was made up as follows:

	£
Land	50,000
Site preparation	12,500
Professional fees	10,000
Offices	68,000
Staff canteen	32,000
Factory	207,500
	380,000

Plant and machinery

Helium Ltd purchased the following assets in respect of the year ended 31 March 2010:

		£
15 April 2009	Machinery	38,750
13 September 2009	Van	23,840
10 October 2009	Motor car	14,500

The motor car was purchased for one of the company's directors who will use the car 45% for business purposes. It has 150g/km CO_2 emissions. The tax written down value of the main pool at 1 April 2009 was £72,455.

Loan interest received

Loan interest of £7,500 was received on 30 September 2009, and £7,500 on 31 March 2010. There were no accruals at the year end. The loan was made for non-trading purposes.

Overseas trading income

Helium's overseas branches generated after tax profits of £90,000 in Argon and £10,000 in Boron. Withholding taxes are 10% in Argon and 25% in Boron.

Dividends received

The company also received dividends of £13,500 from Carbon plc, an unconnected UK company. This figure was the actual cash amount received.

Charitable donations

Helium Ltd made donations to charity of £30,000 under the Gift Aid scheme during the period.

Required

(a) Calculate Helium Ltd's corporation tax liability for the year ended 31 March 2010. **(22 marks)**

Helium Ltd is considering expanding overseas operations. This would be achieved by buying shares in a company in the country of Xenon. Helium Ltd would expect to receive dividends from the company, which is expected to make profits.

Required

(b) Explain briefly, without calculations, possible effects of the Xenon company on Helium Ltd's future corporation tax calculations. **(3 marks)**

(Total = 25 marks)

Question 3

You are a trainee accountant and your manager has asked for your help in advising three unconnected corporate clients that have each sold freehold factories.

Rotate Ltd

On 2 September 2009 Rotate Ltd sold a freehold factory for £470,000. The indexed cost of the factory on that date was £240,100. On 8 August 2009 Rotate Ltd had purchased a replacement freehold factory for £415,000.

Spin Ltd

On 14 November 2009 Spin Ltd sold a freehold factory for £360,000. The indexed cost of the factory on that date was £333,200. On 5 January 2010 Spin Ltd purchased a replacement leasehold factory, with a lease period of 15 years, for £394,000.

Turn Ltd

On 22 December 2009 Turn Ltd sold a freehold factory for £290,000. The indexed cost of the factory on that date was £230,000. 80% of this factory had been used in a manufacturing business run by Turn Ltd. However, the remaining 20% of this factory has never been used for business purposes. On 18 January 2010 Turn Ltd purchased a replacement freehold factory for £340,000.

Other information

Unless otherwise stated, each of the factories has always been used for business purposes. Where possible, Rotate Ltd, Spin Ltd and Turn Ltd have all elected to hold over the gain arising on the disposal of their respective freehold factories under the rollover relief (replacement of business assets) rules.

Required

(a) State the conditions that must be complied with in order that rollover relief can be claimed. You are not expected to list the categories of asset that qualify for rollover relief. **(3 marks)**

(b) Advise Rotate Ltd, Spin Ltd and Turn Ltd of the rollover relief available on the disposal of their respective freehold factories. Your answer should include:

   (1) Calculations of the capital gains immediately chargeable, and

   (2) An explanation of the future tax implications arising from the gains that have been deferred.

(12 marks)

Twirl Ltd

Twirl Ltd disposed of the following assets in its accounting period ended 31 December 2009:

15 August 2009: Antique chair for £4,000 acquired for £7,800 in July 2005.

30 December 2009: 2 hectares of land held as investment for £40,000. The original plot of 5 acres was acquired in May 2006 for £27,000. The remaining 3 acres were valued at £50,000 in December 2009.

Required

(c) Calculate the net chargeable gains to be included in Twirl Ltd's profits liable to corporation tax for the year ended 31 December 2009. **(5 marks)**

Assume the following RPIs

July 2005	192.2	August 2009	208.8
May 2006	197.7	December 2009	207.2

(Total = 20 marks)

Question 4

Duke and Earl Upper-Crust, aged 44, are twin brothers.

Duke is employed by the High-Brow Bank plc as a financial adviser. During the tax year 2009/10 Duke was paid a gross salary of £120,000. He also received a bonus of £40,000 on 15 March 2010. On 31 March 2010 Duke made a contribution of £85,000 (gross) into a personal pension scheme. He is not a member of High-Brow Bank plc's occupational pension scheme.

Earl is self-employed as a financial consultant. His trading profit for the year ended 5 April 2010 was £34,000. On 31 March 2010 Earl made a contribution of £40,000 (gross) into a personal pension scheme.

Neither Duke nor Earl has any other income.

Required

(a) Calculate Duke and Earl's income tax liabilities for the tax year 2009/10, together with the actual net of tax amounts that Duke and Earl will have paid to their personal pension companies. **(8 marks)**

(b) Advise Duke and Earl of the maximum additional amounts that they could have contributed into personal pension schemes for the tax year 2009/10, whether or not such additional contributions would have qualified for tax relief, and the date by which any qualifying contributions would have had to have been paid. **(4 marks)**

(c) Explain the effect of the pension scheme annual allowance limit of £245,000, and the tax implications if contributions are made in excess of this limit. **(3 marks)**

(Total = 15 marks)

Question 5

(a) Anne and Bryn commenced in partnership on 1 July 2007 preparing accounts to 30 June. Cathy joined as a partner on 1 July 2008, and Bryn resigned as a partner on 30 June 2009. Profits have always been shared equally. The partnership's trading profits were as follows:

	£
Year ended 30 June 2008	51,600
Year ended 30 June 2009	79,200

Required

Calculate the trading income assessments of Anne for the tax year 2007/08, Cathy for the tax year 2008/09 and Bryn for the tax year 2009/10. **(6 marks)**

(b) Darcy and Emma commenced in partnership on 6 April 1999, preparing accounts to 5 April. Frank joined as a partner on 6 April 2009, and Darcy resigned as a partner on 5 April 2010. For the year ended 5 April 2010 the partnership made a trading loss. Frank was in employment prior to becoming a partner on 6 April 2009. Apart from this, none of the partners has any other income or capital gains.

Required

State the possible ways in which Darcy, Emma and Frank can relieve their share of the trading loss for the year ended 5 April 2010. **(4 marks)**

(Total = 10 marks)

Answers

DO NOT TURN THIS PAGE UNTIL YOU HAVE COMPLETED THE MOCK EXAM

A plan of attack

What's the worst thing you could be doing right now if this was the actual exam paper? Sharpening your pencil? Wondering how to celebrate the end of the exam in about 3 hours time? Panicking, flapping and generally getting in a right old state?

Well, they're all pretty bad, so turn back to the paper and let's sort out a **plan of attack**!

First things first

You have fifteen minutes of reading time. Spend this looking carefully through the questions and deciding the order in which you will attempt them. As a general rule you should attempt the questions that you find easiest first and leave the hardest until last. Depending on how confident you are we recommend that you follow one of the following two options:

Option 1 (if you're thinking 'Help!')

If you're a bit worried about the paper, do the questions in the order of how well you think you can answer them. You may find the shorter questions less daunting than the longer questions. Alternatively, you may feel better prepared for questions 1 and 2 and wish to start there.

- Question 1 is on standard income tax topics. Make sure you have a good attempt at the administrative aspects in part (ii). Part (b) is about VAT and you must make sure you make a good attempt at this part of the question as well.
- Question 2 is a corporation tax computation. Use the standard pro-forma in your answer and ensure that you deal with all the information given in the question.
- Question 3 dealt with capital gains for a number of companies. Work through the gains or losses systematically and don't forget to apply relevant reliefs.
- Question 4 dealt with pensions. There were easy marks on the basic income tax computations even if you were unsure about the details of the pension rules.
- Question 5 was on partnerships and loss relief. Again, a good attempt at both parts in necessary.

Lastly, what you mustn't forget is that you have to **answer all of the questions in the paper. They are all compulsory**. Do not miss out any questions or you will seriously affect your chance of passing the exam.

Option 2 (if you're thinking 'It's a doddle')

It never pays to be over confident but if you're reasonably confident about the exam then it is best to work through the questions sequentially starting with question 1.

No matter how many times we remind you....

Always, always **allocate your time** according to the marks for the question in total and then according to the parts of the question. And **always**, **always follow the requirements** exactly.

You've got spare time at the end of the exam.....?

If you have allocated your time properly then you **shouldn't have time on your hands** at the end of the exam. But if you find yourself with five or ten minutes to spare, check over your work to make sure that there are no silly arithmetical errors.

Forget about it!

And don't worry if you found the paper difficult. More than likely other candidates did too. If this were the real thing you would need to **forget** the exam the minute you leave the exam hall and **think about the next one**. Or, if it's the last one, **celebrate**!

Question 1

Text references. Chapters 2, 3, 4, 5, 6 and 17 for income tax. Chapters 25 and 26 for VAT.

Top tips. Learn the rules for benefits. They are very examinable. Discounts for VAT are a favourite exam topic.

Easy marks. Payment and return submission dates are easy marks. You could even answer that part of the requirement first to ensure you do not forget to answer it.

Marking scheme

					Marks
(a)	(i)	**Income**			
		Salary		½	
		Accommodation	– basic charge	½	
			– additional charge	1	
			– deduct rent paid	1	
			– use of furniture	1	
		Beneficial loan		1	
		Property	– income	½	
			– expenses	½	
			– disallowed expenses	1	
			– wear and tear	1	
		Other investment income		1	
		PA		½	
		Extend basic rate band	– Gift Aid	1	
			– pension	1	
		Tax bands		1½	
		Tax rates		1	
		Deduct tax credits		1	
					15
	(ii)	Return deadlines		2	
		Penalties		3	
					5
(b)	(i)	VAT period		1	
		Basic tax point		1	
		Payment received		1	
		Issue of invoice within 14 days		1	
					4
	(ii)	Large order discount		1	
		Prompt payment discount		2	
					3
	(iii)	Made to taxable person		1	
		Supported by evidence		1	
		Supplied for business purposes		1	
					3
					30

(a) (i) **Darren Radhill income tax 2009/10**

	Non-savings	*Savings*	*Dividend*
	£	£	£
Employment income (W1)	48,664		
Furnished letting (W4)	12,600		
Bank interest (2,000 × 100/80)		2,500	
UK dividends (450 × 100/90)			500
Net income	61,264	2,500	500
Personal allowance	(6,475)		
Taxable income	54,789	2,500	500

	£	£
Income tax		
£37,400 @ 20%		7,480
£7,000 @ 20% (W5)		1,400
£10,389 @ 40%		4,156
£2,500 @ 40%		1,000
£500 @ 32.5%		163
		14,199
Less tax credits		
Dividends	(50)	
Interest	(500)	
PAYE	(12,390)	
		(12,940)
Tax due		1,259

Workings

1 *Employment income*

	£
Salary	45,000
Accommodation (W2)	3,450
Beneficial loan (W3)	214
	48,664

2 *Accommodation*

	£
Basic charge: annual value	3,500
Less rent paid (total £12,000)	(3,500)
	Nil

Additional charge

	£
Cost	295,000
Less	(75,000)
	220,000

	£
£220,000 @ 4.75%	10,450
Less: Balance of rent paid £(12,000 – 3,500)	(8,500)
Total	1,950

Furniture £7,500 @ 20% = 1,500

Total accommodation benefit £(1,950 + 1,500) = £3,450

3 *Beneficial loan interest*

$$\frac{£(10{,}000 + 8{,}000)}{2} = £9{,}000 \times 4.75\% = £428 \times {}^{6}/_{12} = \underline{£214}$$

4 *Property income from furnished lettings*

	£	£
Rent received		18,000
Less: expenses (note 2)		
water rates	600	
agents fees	1,800	
cleaner	1,260	
wear and tear £(18,000 – 600) @ 10%	1,740	
		(5,400)
		12,600

Note. Land registry fees and structural repairs are not allowable expenses as they are capital in nature.

5 *Extension of basic rate band*

	£
Pension (£4,800 × 100/80)	6,000
Gift aid (£800 × 100/80)	1,000
	7,000

(ii) **Tax return submission**

Darren must submit his tax return by 31 January 2011, if he files the return online. If he wants to file a paper return, the return must be submitted by 31 October 2010. If he does file a paper return, he can request HMRC to compute the tax due. If the return is filed online, tax will be calculated automatically.

If Darren does not submit an online return by 31 January 2011 there is an automatic penalty of £100. If the return still has not been submitted by 31 July 2011 a further automatic £100 penalty is charged. Note that these fixed rate penalties are limited to the amount of tax outstanding. If all the tax has been paid by 31 January 2011 there would therefore be no penalty due.

If the return is more than 12 months late, the maximum penalty is £200 + 100% of the tax liability.

In addition, the First-tier Tribunal can direct that a maximum penalty of £60 per day be imposed where failure to deliver a tax return continues after notice of the direction has been given to the taxpayer.

(b) (i) **Accounting for output VAT**

Output VAT must be accounted for according to the VAT period in which the supply is treated as being made. This is determined by the tax point.

The printing contracts are supplies of services, so the basic tax point for each contract will be the date that it is completed.

Where payment is received before the basic tax point, then this date becomes the actual tax point. The tax point for each 10% deposit is therefore the date that it is received.

If an invoice is issued within 14 days of the basic tax point, the invoice date will usually replace the basic tax point outlined above. This will apply to the balance of the contract price since Denzil issues invoices within three to five days of completion.

(ii) **Discounts**

Where a discount of 5% is given for an order of more than £500 then output VAT is simply calculated on the revised, discounted, selling price.

As regards the 2.5% discount offered for prompt payment, output VAT is calculated on the selling price less the amount of discount offered.

There is no amendment to the amount of output VAT charged if the customer does not take the discount but instead pays the full selling price.

(iii) **Input VAT**

The supply must be made to Denzil since he is the taxable person making the claim.

The supply must be supported by evidence, and this will normally take the form of a VAT invoice. Denzil will therefore not be able to recover any input VAT in respect of the purchases of office supplies for cash where there is no invoice.

Denzil must use the goods or services supplied for business purposes, although an apportionment can be made where supplies are acquired partly for business purposes and partly for private purposes.

Question 2

Text references. Chapters 18 and 19 for PCTCT and CT calculation. Chapter 23 deals with the overseas aspects.

Top tips. Use a columnar approach when working out the double taxation relief for the UK holding company.

Easy marks. The residence of companies should be well known and the examiner has already given a clue about the significance of board meetings. Use of proformas to calculate the UK and overseas PCTCT as well as DTR ensures you do not make mistakes and lose marks.

Examiner's comments. Only a minority of candidates correctly calculated the overseas income and very few appreciated that the Gift Aid payment should be set against UK income.

Marking scheme

				Marks
(a)	Trading income		½	
	IBA	– Land	1	
		– Offices	1½	
		– Eligible expenditure	1	
		– Allowance	1½	
	PM	– AIA	1½	
		– FYA	1½	
		– Pool	1½	
	Interest income		1	
	Overseas income: Argon		1	
	Overseas income: Boron		1	
	Gift Aid		2	
	FII		1	
	SCR		1	
	CT		2	
	DTR		3	
				22
(b)	Associated company		1	
	Dividends exempt		1	
	FII		1	
				3
				25

(a) **Helium Ltd – CT liability year ended 31 March 2010**

	Total	*UK*	*Overseas*
	£	£	£
Trading income	100,000	100,000	
Less IBAs (W1)	(6,600)	(6,600)	
CAs (W2)	(72,427)	(72,427)	
Taxable trading income	20,973	20,973	
Interest income (accruals basis)	15,000	15,000	
Overseas income			
– Argon (W3)	100,000		100,000
– Boron (W4)	13,333		13,333
Total profits	149,306	35,973	113,333
Less Gift Aid donation	(30,000)	(30,000)	–
PCTCT	119,306	5,973	113,333
FII £13,500 × 100/90	15,000		
'Profits'	134,306		
CT @ 21% (N)	25,054	1,254	23,800
Less DTR			
Argon (W3)	(10,000)		(10,000)
Boron (W4)	(2,800)		(2,800)
CT liability	12,254	1,254	11,000

Note. Helium Ltd has no associated companies and so the small companies' rate applies.

Workings

1 *Industrial buildings allowance*

Allowable expenditure:

	£
Site preparation	12,500
Professional fees	10,000
Offices	68,000
Canteen	32,000
Factory	207,500
	330,000

Note. Offices qualify as cost is lower than 25% of £330,000. Land never qualifies for IBAs.

WDA @ 2% × £330,000 = £6,600

2 *Capital allowances on plant and machinery*

	AIA/FYA	*Main pool*	*Allowances*
	£	£	£
TWDVs c/f		72,455	
Additions qualifying for AIA/FYA			
15.4.09 Machinery	38,750		
13.9.09 Van	23,840		
	62,590		
AIA	(50,000)		50,000
AIA	12,590		
FYA @ 40%	(5,036)		5,036
	7,554		
Additions not qualifying for AIA/FYA			
10.10.09 Car		14,500	
		86,955	
WDA @ 20%		(17,391)	17,391
Transfer balance to pool	(7,554)	7,554	
TWDV c/f		77,118	
Allowances			72,427

3 *DTR Argon branch profits*

Gross overseas income: £90,000 x 100 / (100 – 10) = £100,000

Overseas tax: £100,000 - £90,000 = £10,000

UK tax: £100,000 x 21% = £21,000

DTR: lower ie £10,000

4 *DTR Boron branch profits*

Gross overseas income: £10,000 x 100 / (100 – 25) = £13,333

Overseas tax: £13,333 - £10, 000 = £3,333

UK tax: £13,333 x 21% = £2,800

DTR: lower ie £2,800

(b) If the overseas company is a subsidiary, it would be an associated company, so the small companies lower and upper limits would be reduced to £150,000 and £750,000 respectively. This may increase the rate of UK corporation tax.

The dividends received from the Xenon company are exempt from UK corporation tax.

However franked investment income includes all dividends received by UK and foreign companies (other than group income). Therefore if the holding is less than 51%, the dividends could affect the calculation of corporation tax.

(Note: the question was deliberately vague about Helium Ltd's percentage holding so that you could make all the above points without contradiction.)

Question 3

Text references. Chapter 20 covers the rules for chargeable gains companies.

Top tips. This question tests thoroughly the rollover relief rules. Remember that you always need to calculate the indexed gain first, before you can think about taking advantage of any reliefs.

Easy marks. The calculation of the three indexed gains were easy marks.

Marking scheme

			Marks
(a)	Period of reinvestment	1	
	Qualifying assets	1	
	Brought into business use	1	
			3
(b)	**Rotate Ltd**		
	Proceeds/Indexed cost	1	
	Rollover relief	1½	
	Base cost	1	
	Spin Ltd		
	Proceeds/Indexed cost	1	
	Rollover relief	1	
	Base cost of depreciating asset not adjusted	1	
	5 January 2020	½	
	Date of sale	½	
	Ceasing to be used for business purposes	½	

	Turn Ltd		
	Proceeds/Indexed cost	1	
	Rollover relief	2	
	Base cost	1	
			12
(c)	Loss on chattel	1	
	Part disposal – cost	1	
	– indexation	1	
	– gain	1	
	Net gains (no AE)	1	
			5
			20

(a) **Conditions for rollover relief**

(i) The reinvestment must take place between one year before and three years after the date of disposal of the original asset.

(ii) The old and new assets must both be qualifying assets and be used for business purposes.

(iii) The new asset must be brought into business use at the time that it is acquired.

(b) **Rotate Ltd**

	£
Proceeds	470,000
Less: Indexed cost	(240,100)
	229,900
Less: Rollover relief (balancing figure)	(174,900)
Chargeable gain	55,000

The gain that remains chargeable is the amount of proceeds received that have not been reinvested in the purchase of the replacement asset, ie £(470,000 – 415,000) = £55,000.

When the replacement factory is ultimately disposed of the base cost will be £240,100 (415,000 – 174,900).

Spin Ltd

	£
Proceeds	360,000
Less: indexed cost	(333,200)
	26,800
Less: rollover relief	(26,800)
Chargeable gain	–

The sale proceeds are fully reinvested, and so the whole of the gain can be rolled over.

The leasehold factory is a depreciating asset, and so the base cost of this factory is not adjusted.

The gain of £26,800 will be held over until the earlier of 5 January 2020 (ten years from the date of acquisition), the date that the factory is disposed of, or the date that the factory ceases to be used for business purposes, at which point it will be chargeable.

Turn Ltd

	£
Proceeds	290,000
Less: indexed cost	(230,000)
	60,000
Less: rollover relief (balancing figure)	(48,000)
Chargeable gain	12,000

The proportion of the gain relating to non-business use is £12,000 (60,000 x 20%), and this amount does not qualify for rollover relief.

The business proportion of the sale proceeds (290,000 x 80% = 232,000) is fully reinvested, and so the balance of the gain can be rolled over.

When the replacement factory is ultimately disposed of the base cost will be £292,000 (340,000 – 48,000).

(c) *Antique chair*

	£
Proceeds (deemed)	6,000
Less: cost	(7,800)
Loss	(1,800)

Indexation cannot increase loss.

Part disposal of land

	£
Proceeds	40,000
Less: cost	
$£27{,}000 \times \dfrac{40{,}000}{40{,}000 + 50{,}000}$	(12,000)
	28,000
Less: indexation allowance (207.2-197.7)/197.7(= 0.048) × £12,000	(576)
Gain	27,424
Net gains £(27,424 – 1,800)	25,624

Question 4

Text references. Chapter 2 covers the income tax computation. Pension contributions are covered in Chapter 5.

Top tips. Tax relief is available on pension contributions up to an amount of 100% of relevant earnings. Personal pension contributions are always paid net of basic rate tax; higher rate relief is given, where appropriate, by extending the basic rate band.

Easy marks. Part (a) required two straightforward income tax computations.

Marking scheme

			Marks
(a)	**Duke Upper-Crust**		
	Employment income	1	
	Personal allowance	½	
	Income tax	2	
	Net contribution	1	
	Earl Upper-Crust		
	Trading profit	½	
	Personal allowance	½	
	Income tax	1	
	Net contribution	1½	
			8

(b)	No restriction regarding contributions	1	
	Tax relief – Duke	1	
	– Earl	1	
	Period of payment	1	
			4
(c)	Effective limit	1	
	40% tax charge	1	
	Cancellation of relief given	1	
			3
			15

(a) **Duke Upper-Crust – Income tax computation 2009/10**

	£
Employment income (120,000 + 40,000)	160,000
Personal allowance	(6,475)
Taxable income	153,525
Income tax	
£37,400 @ 20%	7,480
£85,000 @ 20%	17,000
£31,125 @ 40%	12,450
Income tax liability	36,930

All of Duke's pension contribution of £85,000 qualifies for tax relief, so he will have paid £68,000 (80% × £85,000) to his personal pension company.

Earl Upper-Crust – Income tax computation 2009/10

	£
Trading profit	34,000
Personal allowance	(6,475)
Taxable income	27,525
Income tax	
£27,525 @ 20%	5,505
Income tax liability	5,505

Only £34,000 of Earl's pension contribution of £40,000 qualifies for tax relief, since relief is only available up to the amount of earnings.

The amount of tax relief is £6,800 (£34,000 at 20%), so Earl will have paid £33,200 £(40,000 – 6,800) to his personal pension company.

(b) There is no restriction regarding the amounts that Duke and Earl could have contributed into a personal pension scheme for 2009/10.

However, tax relief is only available on an amount up to earnings. Therefore, Duke would only receive tax relief on additional pension contributions of up to £75,000 £(160,000 – 85,000).

Earl has already made a pension contribution in excess of his earnings for 2009/10, and so any additional pension contribution would not have qualified for any tax relief.

Pension contributions for 2009/10 would have had to have been paid between 6 April 2009 and 5 April 2010, since it is not possible to carry back contributions.

(c) Although there is tax relief on pension contributions up to relevant earnings, the annual allowance limit of £245,000 acts as an effective limit.

Any tax relieved contributions in excess of the annual allowance are taxed at the rate of 40% on the individual, with the tax being paid under the self assessment system.

The annual allowance charge therefore cancels out the tax relief that would have been given. There is no charge where contributions have not qualified for tax relief.

Question 5

Text references. Basis periods for income tax are covered in Chapter 9, Partnerships are dealt with in Chapter 11.

Top tips. First allocate the profits of each accounting period between the partners, before attempting to apply the opening or closing year rules.

Where there is a change in the profit sharing arrangements during an accounting period, the salary must be pro rated according to the date of the change.

Easy marks. The profit sharing arrangements in part (a) were straightforward.

Marking scheme

			Marks
(a)	Anne	1½	
	Cathy	2	
	Bryn – Overlap relief	1	
	– Trading income assessment	1½	
			6
(b)	Carry forward	½	
	General income 2008/09 and extended loss relief 2006/07 and 2007/08	1½	
	General income 2006/07 to 2008/09	1	
	Terminal loss	1	
			4
			10

(a) **Trading income assessments**

		£
Anne – 2007/08		
Actual:	1.7.07 – 5.4.08	
	9/12 × £25,800 (W1) =	19,350
Cathy – 2008/09		
Actual:	1.7.08 – 5.4.09	
	9/12 × £26,400 (W1)	19,800
Bryn – 2009/10		
Final year:	12 m/e 30.6.09	26,400
Less:	overlap profits (W2)	(19,350)
		7,050

Workings

1 *Allocation of partnership profits*

	Total	*Anne*	*Cathy*	*Bryn*
	£	£	£	£
Y/e 30.6.08	51,600	25,800		25,800
Y/e 30.6.09	79,200	26,400	26,400	26,400

2 *Overlap profits – Bryn*

2007/08	
1.7.07 – 5.4.08	
9/12 × £25,800 (W1)	19,350
2008/09	
12 m/e 30.6.08	25,800

Overlap profits are therefore £19,350, which are deducted from his taxable profits in the year in which he leaves the partnership.

(b) (i) Emma and Frank can carry their share of the loss forward against the first future trading profits arising in the same trade. Darcy cannot as he has resigned and will therefore not have any future trading profits from this trade.

(ii) Darcy, Emma and Frank can claim against their general income for 2008/09. None of them has any income for 2009/10, and so a claim will not be made for this year. Darcy and Emma can then also carry back against their trading profits in 2006/07 and 2007/08, later year first, to a maximum of £50,000.

(iii) Frank can claim against his general income for 2006/07 to 2008/09, earliest year first, being the three tax years prior to the commencement of trading.

(iv) Darcy has resigned and so can claim against his trading profits for 2006/07 to 2008/09, latest year first, being the three years prior to the last year of trading.

ACCA

Paper F6

Taxation (United Kingdom)

Mock Examination 3

(December 2009 paper)

Question Paper	
Time allowed	
Reading and Planning	**15 minutes**
Writing	**3 hours**
ALL FIVE questions are compulsory and MUST be attempted.	

During reading and planning time only the question paper may be annotated.

DO NOT OPEN THIS PAPER UNTIL YOU ARE READY TO START UNDER EXAMINATION CONDITIONS

ALL FIVE questions are compulsory and MUST be attempted

Question 1

Na Style commenced self-employment as a hairdresser on 1 January 2007. She had tax adjusted trading profits of £25,200 for the six-month period ended 30 June 2007 and £21,600 for the year ended 30 June 2008.

The following information is available for the tax year 2009/10:

Trading profit for the year ended 30 June 2009

(1) Na's profit and loss account for the year ended 30 June 2009 is as follows:

	Note	£	£
Income			61,300
Expenses			
Depreciation		1,300	
Motor expenses	2	2,200	
Professional fees	3	1,650	
Property expenses	4	12,900	
Purchases	5	4,700	
Other expenses	6	16,550	
			(39,300)
Net profit			22,000

(2) Na charges all the running expenses for her motor car to the business. During the year ended 30 June 2009 Na drove a total of 8,000 miles, of which 7,000 were for private journeys.

(3) The figure for professional fees consists of £390 for accountancy and £1,260 for legal fees in connection with the grant of a new five-year lease of parking spaces for customers' motor cars.

(4) Na lives in a flat that is situated above her hairdressing studio, and one-third of the total property expenses of £12,900 relate to this flat.

(5) During the year ended 30 June 2009 Na took goods out of the hairdressing business for her personal use without paying for them, and no entry has been made in the accounts to record this. The goods cost £250 and had a selling price of £450.

(6) The figure for other expenses of £16,550 includes £400 for a fine in respect of health and safety regulations, £80 for a donation to a political party and £160 for a trade subscription to the Guild of Small Hairdressers.

(7) Na uses her private telephone to make business telephone calls. The total cost of the private telephone for the year ended 30 June 2009 was £1,200, and 20% of this related to business telephone calls. The cost of the private telephone is not included in the profit and loss account expenses of £39,300.

(8) Capital allowances for the year ended 30 June 2009 are £810.

Other information

(1) During the tax year 2009/10 Na received dividends of £1,080, building society interest of £560, interest of £310 from an individual savings account (ISA), interest of £1,100 on the maturity of a savings certificate from the National Savings & Investments Bank and interest of £810 from government stocks (gilts). These were the actual cash amounts received in each case.

(2) Na's payments on account of income tax in respect of the tax year 2009/10 totalled £3,200.

Required

(a) Calculate the amount of trading profits that will have been assessed on Na Style for the tax years 2006/07, 2007/08 and 2008/09 respectively, clearly identifying the amount of any overlap profits. **(5 marks)**

(b) Calculate Na Style's tax adjusted trading profit for the year ended 30 June 2009.

Note: your computation should commence with the net profit figure of £22,000, and should list all of the items referred to in notes (1) to (8) indicating by the use of zero (0) any items that do not require adjustment. **(8 marks)**

(c) (i) Calculate the income tax payable by Na Style for the tax year 2009/10. **(6 marks)**

(ii) Calculate Na Style's balancing payment for the tax year 2009/10 and her payments on account for the tax year 2010/11, stating the relevant due dates.

Note: you should ignore national insurance contributions. **(3 marks)**

(d) Advise Na Style of the consequences of not making the balancing payment for the tax year 2009/10 until 31 May 2011.

Note: your answer should include calculations as appropriate. **(3 marks)**

(Total = 25 marks)

Question 2

(a) Crash-Bash Ltd commenced trading on 1 July 2009 as a manufacturer of motor cycle crash helmets in the United Kingdom. The company is incorporated overseas, although its directors are based in the United Kingdom and hold their board meetings in the United Kingdom.

Crash-Bash Ltd prepared its first accounts for the nine-month period ended 31 March 2010. The following information is available:

UK trading profit

The tax adjusted UK trading profit based on the draft accounts for the nine-month period ended 31 March 2010 is £416,840. This figure is **before** making any adjustments required for:

(1) Capital allowances.

(2) Advertising expenditure of £12,840 incurred during June 2009. This expenditure has not been deducted in arriving at the tax adjusted trading profit for the period ended 31 March 2010 of £416,840.

Plant and machinery

The accounts for the nine-month period ended 31 March 2010 showed the following additions and disposals of plant and machinery:

		Cost/(Proceeds)
		£
2 October 2009	Purchased machinery	62,500
28 November 2009	Purchased a motor car	13,200
12 February 2010	Sold machinery	(3,600)

The motor car purchased on 28 November 2009 for £13,200 has a CO_2 emission rate of 108 grams per kilometre. The machinery sold on 12 February 2010 for £3,600 originally cost £5,300 and is part of the machinery purchased on 2 October 2009 for £62,500.

Industrial building

Crash-Bash Ltd purchased a new factory from a builder on 1 January 2010 for £320,000 (including £100,000 for the land). The factory was immediately brought into use for industrial purposes.

Overseas branch profits

Cash-Bash Ltd also had overseas trading profits of £20,000 (gross) for nine-month period ended 31 March 2010 from its sales through an overseas branch. Overseas tax was payable on these profits at the rate of 28.75%.

Overseas dividend received

On 31 March 2010 Crash-Bash Ltd received a dividend of £14,250 from a 100% owned subsidiary company, Safety Inc, that is resident overseas.

UK dividends received

During the period ended 31 March 2010 Crash-Bash Ltd received dividends of £36,000 from Flat-Out plc, an unconnected United Kingdom company. This figure was the actual cash amount received.

Export of crash helmets to Safety Inc

Safety Inc, Crash-Bash Ltd's 100% owned overseas subsidiary company, sells crash helmets that have been manufactured by Crash-Bash Ltd. Crash-Bash Ltd is a large company for the purposes of transfer pricing legislation.

Other information

With the exception of Safety Inc, Crash-Bash Ltd does not have any associated companies.

Required

(i) Explain why Crash-Bash Ltd is treated as being resident in the United Kingdom. **(2 marks)**

(ii) Calculate Crash-Bash Ltd's corporation tax liability for the nine-month period ended 31 March 2010 after taking account of double taxation relief. **(14 marks)**

(iii) Explain the corporation tax implications if Crash-Bash Ltd were to invoice Safety Inc for the exported crash helmets at a price that was less than the market price. **(4 marks)**

(b) *Note that in answering this part of the question you are not expected to take account of any of the information provided in part (a) above.*

Crash-Bash Ltd's outputs and inputs for the first two months of trading from 1 July 2009 to 31 August 2009 were as follows:

	July	*August*
	£	£
Outputs		
Sales	13,200	18,800
Inputs		
Goods purchased	94,600	193,100
Services incurred	22,300	32,700

The above figures are stated exclusive of value added tax (VAT). On 1 September 2009 Crash-Bash Ltd realised that its sales for September 2009 were going to exceed £100,000, and therefore immediately registered for VAT. On that date the company had a stock of goods that had cost £108,600 (exclusive of VAT).

During February 2010 Crash-Bash Ltd discovered that a number of errors had been made when completing its VAT return for the quarter ended 30 November 2009. As a result of these errors the company will have to make an additional payment of VAT to HM Revenue and Customs (HMRC).

Required

(i) Explain why Crash-Bash Ltd was required to compulsorily register for VAT from 1 September 2009, and state what action the company then had to take as regards notifying HM Revenue and Customs of the registration. **(3 marks)**

(ii) Calculate the amount of input VAT that Crash-Bash Ltd was able to recover in respect of inputs incurred prior to registering for VAT on 1 September 2009. Your answer should include an explanation as to why the input VAT is recoverable. **(4 marks)**

(iii) Explain how Crash-Bash Ltd could have voluntarily disclosed the errors relating to the VAT return for the quarter ended 30 November 2009, and state the circumstances in which default interest would have been due. **(3 marks)**

(Total = 30 marks)

Question 3

You are a trainee accountant and your manager has asked for your help regarding three taxpayers who have all disposed of assets during the tax year 2009/10.

(a) **Amanda Moon**

On 30 June 2009 Amanda incorporated a business. She had run the business as a sole trader since 1 July 2004.

The market value of the business assets on 30 June 2009 was £300,000. This figure, along with the respective cost of each asset, is made up as follows:

	Market value	*Cost*
	£	£
Goodwill	90,000	Nil
Freehold shop	165,000	120,000
Net current assets	45,000	45,000
	300,000	

The freehold shop has always been used by Amanda for business purposes. All of the business assets were transferred to a new limited company, Ammoon Ltd, with the consideration consisting of 300,000 £1 ordinary shares valued at £300,000. Amanda took full advantage of the available incorporation relief.

Required

(i) Calculate Amanda Moon's chargeable gains, if any, for the tax year 2009/10, and the base cost of her 300,000 £1 ordinary shares in Ammoon Ltd. **(4 marks)**

(ii) Explain how your answer to (i) above would have differed if the consideration for the transfer of Amanda Moon's business had instead consisted of 200,000 £1 ordinary shares and £100,000 in cash. **(3 marks)**

Note: You should ignore entrepreneurs' relief.

(b) **Bo Neptune**

On 31 July 2009 Bo made a gift of his entire holding of 50,000 £1 ordinary shares (a 100% holding) in Botune Ltd, an unquoted trading company, to his son. The market value of the shares on that date was £210,000. The shares had been purchased by Bo on 22 January 2004 for £94,000. Bo and his son have elected to hold over the gain as a gift of a business asset.

Required

(i) Calculate Bo Neptune's chargeable gain, if any, for the tax year 2009/10, and the base cost of his son's 50,000 £1 ordinary shares in Botune Ltd. **(3 marks)**

(ii) Explain how your answer to (i) above would have differed if the shares in Botune Ltd had instead been sold to Bo Neptune's son for £160,000. **(2 marks)**

Note: You should ignore entrepreneurs' relief.

(c) **Charles Orion**

On 30 September 2009 Charles sold a house for £282,000. The house had been purchased on 1 October 1997 for £110,000.

He occupied the house as his main residence from the date of purchase until 31 March 1999. The house was then unoccupied between 1 April 1999 and 31 December 2007 when Charles went to live with his parents due to his father's illness. From 1 January 2008 until 30 September 2009 Charles again occupied the house as his main residence.

Throughout the period 1 October 1997 to 30 September 2009 Charles did not have any other main residence.

Required

(i) Calculate Charles Orion's chargeable gain, if any, for the tax year 2009/10. **(5 marks)**

(ii) Explain how your answer to (i) above would have differed if Charles Orion had rented out his house during the period 1 April 1999 to 31 December 2007. **(3 marks)**

(Total = 20 marks)

Question 4

On 1 May 2009 Simon House purchased a derelict freehold house for £127,000. Legal fees of £1,800 were paid in respect of the purchase.

Simon then renovated the house at a cost of £50,600, with the renovation being completed on 10 August 2009. He immediately put the house up for sale, and it was sold on 31 August 2009 for £260,000. Legal fees of £2,600 were paid in respect of the sale.

Simon financed the transaction by a bank loan of £150,000 that was taken out on 1 May 2009 at an annual interest rate of 6%. The bank loan was repaid on 31 August 2009.

Simon had no other income or capital gains for the tax year 2009/10 except as indicated above.

Simon has been advised that whether or not he is treated as carrying on a trade will be determined according to the six following 'badges of trade':

(1) Subject matter of the transaction.
(2) Length of ownership.
(3) Frequency of similar transactions.
(4) Work done on the property.
(5) Circumstances responsible for the realisation.
(6) Motive.

Required

(a) Briefly explain the meaning of each of the six 'badges of trade' listed in the question.
Note: You are not expected to quote from decided cases. **(3 marks)**

(b) Calculate Simon House's income tax liability and his Class 2 and Class 4 national insurance contributions for the tax year 2009/10, if he is treated as carrying on a trade in respect of the disposal of the freehold house. **(8 marks)**

(c) Calculate Simon House's capital gains tax liability for the tax year 2009/10, if he is not treated as carrying on a trade in respect of the disposal of the freehold house. **(4 marks)**

(Total = 15 marks)

Question 5

Volatile Ltd commenced trading on 1 July 2005. The company's results for its first five periods of trading are as follows:

	Period ended 31 December 2005	*Year ended 31 December 2006*	*Year ended 31 December 2007*	*Period ended 30 September 2008*	*Year ended 30 September 2009*
	£	£	£	£	£
Trading profit/(loss)	44,000	(73,800)	95,200	78,700	(186,800)
Property business profit	9,400	6,600	6,500	–	–
Chargeable gains	5,100	–	–	9,700	–
Gift aid donations	(800)	(1,000)	(1,200)	–	–

Required

(a) State the factors that will influence a company's choice of loss relief claims.

Note: You are not expected to consider group relief. **(3 marks)**

(b) Assuming that Volatile Ltd claims relief for its trading losses as early as possible, calculate the company's profits chargeable to corporation tax for the six-month period ended 31 December 2005, each of the years ended 31 December 2006 and 2007, and the nine-month period ended 30 September 2008. Your answer should also clearly identify the amount of any unrelieved trading losses as at 30 September 2009. **(7 marks)**

(Total = 10 marks)

Answers

DO NOT TURN THIS PAGE UNTIL YOU HAVE COMPLETED THE MOCK EXAM

A plan of attack

What's the worst thing you could be doing right now if this was the actual exam paper? Sharpening your pencil? Wondering how to celebrate the end of the exam in about 3 hours time? Panicking, flapping and generally getting in a right old state?

Well, they're all pretty bad, so turn back to the paper and let's sort out a **plan of attack**!

First things first

You have fifteen minutes of reading time. Spend this looking carefully through the questions and deciding the order in which you will attempt them. As a general rule you should attempt the questions that you find easiest first and leave the hardest until last. Depending on how confident you are we recommend that you follow one of the following two options:

Option 1 (if you're thinking 'Help!')

If you're a bit worried about the paper, do the questions in the order of how well you think you can answer them. You may find the shorter questions less daunting than the longer questions. Alternatively, you may feel better prepared for questions 1 and 2 and wish to start there.

- The requirements for question 1 are broken down into five parts which should help you to allocate your time. In part (b) you MUST make sure that you follow the examiner's instructions about how to show the adjustment to profit calculation by using zero (0) if there is no adjustment. If you just leave out the item, you will not be given the mark that relates to it.
- Question 2 is also broken down into parts. Make sure you make a good attempt at the corporation tax AND the VAT aspects.
- Question 3 consists of 3 distinct parts about CGT for individuals – you need to make sure that you answer all three.
- Question 4 is a rather unusual question about taxing profit on the sale of a house either as a trading profit or as a capital gain. Take a few minutes to think through the implications of each approach before you start the computations (which in themselves are quite straightforward).
- Question 5 is a question about company losses. It is a slightly tricky question because there are two losses to be dealt with. Remember to deal with the earlier loss first and then the later loss. You will need to use the losses pro-forma if you are to achieve the correct answer.

Lastly, what you mustn't forget is that you have to **answer all of the questions in the paper. They are all compulsory**. Do not miss out any questions or you will seriously affect your chance of passing the exam.

Option 2 (if you're thinking 'It's a doddle')

It never pays to be over confident but if you're reasonably confident about the exam then it is best to work through the questions sequentially starting with question 1.

No matter how many times we remind you....

Always, always **allocate your time** according to the marks for the question in total and then according to the parts of the question. And **always**, **always follow the requirements** exactly. Did you calculate the payment or repayment in Question 1, not just the income tax liability: these was an easy mark and you should make sure you get it.

You've got spare time at the end of the exam.....?

If you have allocated your time properly then you **shouldn't have time on your hands** at the end of the exam. But if you find yourself with five or ten minutes to spare, check over your work to make sure that there are no silly arithmetical errors.

Forget about it!

And don't worry if you found the paper difficult. More than likely other candidates did too. If this were the real thing you would need to **forget** the exam the minute you leave the exam hall and **think about the next one**. Or, if it's the last one, **celebrate**!

Question 1

Text references. Assessment of trading profits is covered in Chapter 9. Adjustment of trading profit is in Chapter 7. The income tax computation is dealt with in Chapter 2 and administration aspects in Chapter 17.

Top tips. As you deal with each adjustment to profit, tick it off in the question – this method should ensure that you do not miss out any item and thus lose marks.

Easy marks. The administration aspects in part (d) should have been 3 easy marks.

Marking scheme

			Marks
(a)	First tax year trading profits	1	
	Second tax year trading profits	1½	
	Third tax year trading profits	½	
	Overlap profits	2	
			5
(b)	Net profit	½	
	Depreciation	½	
	Motor expenses	1	
	Accountancy	½	
	Legal fees	½	
	Property expenses	1	
	Own consumption	1	
	Fine	½	
	Donation to political party	½	
	Trade subscription	½	
	Private telephone	1	
	Capital allowances	½	
			8
(c) (i)	*Income tax computation*		
	Trading profit	½	
	Building society interest	½	
	Individual savings account	½	
	Interest from savings certificates	½	
	Interest from government stocks	1	
	Dividends	½	
	Personal allowance	½	
	Income tax liability	1	
	Income tax suffered at source	1	
			6
(ii)	*Income tax payments*		
	Balancing payment	1½	
	Payments on account	1½	
			3
(d)	Interest	1	
	Calculation	1	
	Surcharge	1	
			3
			25

(a) **Na Style trading profits 2006/07, 2007/08 and 2008/09**

Year	*Basis period*	*Working*	*Taxable profits* £
2006/07	1.01.07 – 5.4.07	£25,200 × 3/6	12,600
2007/08	1.01.07 – 31.12.07 (N)	£25,200 + £21,600 × 6/12	36,000
2008/09	1.7.07 – 30.6.08		21,600

Note

Because the accounting period ending in the second tax year is less than twelve months, the basis period for that year is the first twelve months of trading.

Overlap profits

Overlap period	*Working*	*Overlap profits* £
1.01.07 – 5.4.07	£25,200 × 3/6	12,600
1.07.07 – 31.12.07	£21,600 × 6/12	10,800

(b) **Na Style tax adjusted trading profit for year ended 30 June 2009**

	£	£
Net profit		22,000
Add: depreciation	1,300	
motor expenses – private use		
7,000/8,000 × £2,200	1,925	
professional fees – accountancy	0	
professional fees – lease (N)	1,260	
property expenses – private use		
1/3 × £12,900	4,300	
purchases – goods taken for own use (selling price)	450	
other expenses – fine	400	
other expenses – political party donation	80	
other expenses – trade subscription	0	
		9,715
		31,715
Less: telephone – business use 20% × £1,200	240	
capital allowances	810	(1,050)
Tax adjusted trading profit		30,665

Note

Legal expenses relating to the *grant* of a short lease are not allowable.

(c) (i) **Na Style tax payable for 2009/10**

	Non-savings income £	*Savings income* £	*Dividend income* £	*Total* £
Trading income (part (b)	30,665			
BSI £560 × 100/80		700		
ISA interest (exempt)				
NS&I interest (exempt)				
Interest from stocks (gross)		810		
UK dividends £1,080 × 100/90			1,200	
Net income	30,665	1,510	1,200	33,375
Less: personal allowance	(6,475)			
Taxable income	24,190	1,510	1,200	26,900

	£	£
Income tax		
Non savings income		
£24,190 × 20%		4,838
Savings income		
£1,510 × 20%		302
Dividend income		
£1,200 × 10%		120
Tax liability		5,260
Less: tax suffered		
Tax credit on dividend income £1,200 × 10%	120	
Tax on building society interest £700 × 20%	140	
		(260)
Tax payable		5,000

(ii) **Na Style balancing payment for 2009/10**

	£
Tax payable (part (i))	5,000
Less: payments on account	(3,200)
Balancing payment due 31 January 2011	1,800
First payment on account 2010/11	
½ × £5,000 due 31 January 2011	2,500
Second payment on account 2010/11	
½ × £5,000 due 31 July 2011	2,500

(d) **Consequences of not making balancing payment until 31 May 2011**

Interest is charged where a balancing payment is paid late. This will run from 1 February 2011 to 31 May 2011.

The interest charge will be £1,800 × 2.5% × 4/12 = £15.

In addition, a surcharge of £1,800 @ 5% = £90 will be imposed as the balancing payment is made more than twenty-eight days, but not more than six months, after the due date.

Question 2

Text references. Capital allowances are covered in Chapter 8. Computing profits chargeable to corporation tax is in Chapter 18 and the computation of corporation tax in Chapter 19. Overseas matters for companies is covered in Chapter 23. VAT is dealt with in Chapters 25 and 26.

Top tips. You could start with part (b) if you are confident about VAT since you were told that it was independent of part (a).

Easy marks. Registration for VAT is often examined so you should have been able to gain easy marks in part (b)(i).

Marking scheme

				Marks
(a)	(i)	Central control and management in the UK	1	
		Board meetings held in the UK	1	
				2
	(ii)	UK trading profit	½	
		Advertising expenditure	1	
		Plant and machinery – AIA	1	
		– FYA @ 40%	1	
		– FYA @ 100%	1	
		– disposal	½	
		Industrial building – eligible expenditure	1	
		– allowance	1	
		Overseas income	1	
		Overseas dividend	1	
		FII	1	
		Corporation tax	2	
		Double taxation relief	2	
				14
	(iii)	Reduction in UK corporation tax	1	
		Use of market value	1	
		Definition of market value	1	
		Adjustment under self assessment	1	
				4
(b)	(i)	Registration limit	1	
		Taxable supplies for September 2009	1	
		Notification	1	
				3
	(ii)	Stock – explanation	1	
		– calculation	½	
		Services – explanation	1	
		– calculation	1	
		Total VAT recovery	½	
				4
	(iii)	Net errors less than limit	1	
		Net errors exceeding limit	1	
		Default interest	1	
				3
				30

(a) (i) **Residence of Crash-Bash Ltd in the United Kingdom**

Companies that are incorporated overseas are only treated as being resident in the UK if their central management and control is exercised in the UK.

Since the directors are UK based and hold their board meetings in the UK, this would indicate that Crash-Bash Ltd is managed and controlled from the UK and therefore it is resident in the UK.

(ii) **Crash-Bash Ltd corporation tax liability for nine months ended 31 March 2010**

	£
UK trading profit (W1)	340,000
Overseas income	20,000
PCTCT	360,000
FII £36,000 × 100/90 (N)	40,000
Profits	400,000

	£
Corporation tax (W4)	
FY 2009	
£360,000 × 28%	100,800
Less: 7/400 × (562,500 – 400,000) × (360,000/400,000)	(2,559)
	98,241
Less: DTR (W5)	(5,458)
CT liability	92,783

Note
The dividend from Safety Inc is not FII because it is received from a 51% group company. It is exempt from UK corporation tax.

Workings

1 *UK trading profit*

	£
Tax adjusted trading profit	416,840
Less: pre-trading advertising expenditure (N)	(12,840)
capital allowances (W2)	(60,700)
IBAs (W3)	(3,300)
	340,000

Note
The advertising expenditure incurred in June 2009 is pre-trading expenditure within seven years prior to the commencement of trading and is treated as incurred on the first day of trading (1 July 2009).

2 *Plant and machinery*

	AIA/FYA @ 40%	*FYA @ 100%*	*Main pool*	*Allowances*
	£	£	£	£
Additions qualifying for AIA/FYA@ 40%				
2.10.09	62,500			
AIA £50,000 x 9/12	(37,500)			37,500
	25,000			
FYA @ 40%	(10,000)			10,000
	15,000			
Transfer balance to pool	(15,000)		15,000	
Additions qualifying for FYA @ 100%				
28.11.09 Car		13,200		
FYA @ 100%		(13,200)		13,200
Disposal				
12.2.10			(3,600)	
TWDV c/f			11,400	
Allowances				60,700

3 *IBAs*

Eligible cost	£
Total expenditure	320,000
Less: land	(100,000)
Eligible cost	220,000

IBA: 2% × £220,000 × 9/12 = £3,300

The IBA is restricted to 9/12 because the accounting period is 9 months long.

4 *Corporation tax limits*

	FY 2009 9 months to 31 March 2010 £
Profits	400,000
Lower limit	
£300,000 × 9/12 × 1/2	112,500
Upper limit	
£1,500,000 × 9/12 × 1/2	562,500

There is one associated company (Safety Inc) so the limits are one-half of the usual limits. Marginal relief applies because profits fall between the lower and upper limits.

5 *Double taxation relief*

	Total £	*UK* £	*Overseas* £
UK trading income	340,000	340,000	
Overseas trading income	20,000		20,000
PCTCT	360,000	340,000	20,000
Corporation tax @ 27.289167% (W6)	98,241	92,783	5,458
Less DTR: lower of:			
(a) overseas tax: £20,000 @ 28.75% = £5,750 or			
(b) UK tax on overseas income	(5,458)		(5,458)
	92,783	92,783	0

6 *Rate of UK corporation tax*

The rate of UK corporation tax is:

98,241/360,000 × 100 = 27.289167%

(iii) **Crash-Bash Ltd and Safety Inc transfer pricing**

Invoicing for the exported crash helmets at less than the market price will reduce the UK trading profits of Crash-Bash Ltd and therefore its UK corporation tax.

A true market price will therefore have to be substituted for the transfer price. This will be the 'arms length' price that would be charged if the parties to the transaction were independent of each other.

Crash-Bash Ltd will be required to make the adjustment in its corporation tax self-assessment tax return.

(b) (i) **Crash-Bash Ltd compulsory VAT registration**

Traders must register for VAT if at any time they expect their taxable supplies for the following 30-day period to exceed £68,000.

Crash–Bash Ltd realised that its taxable supplies for September 2009 were going to be at least £100,000. The company was therefore liable to register from 1 September 2009 (the start of the 30-day period).

Crash–Bash Ltd had to notify HMRC by 30 September 2009 (the end of the 30-day period).

(ii) **Crash-Bash Ltd pre-registration VAT**

VAT incurred before registration can be treated as input tax and recovered from HMRC subject to certain conditions.

If the claim is for input tax suffered on goods purchased prior to registration then the following conditions must be satisfied.

- The goods were acquired for the purpose of the business which either was carried on or was to be carried on by the trader at the time of supply.
- The goods have not been supplied onwards or consumed before the date of registration.
- The VAT must have been incurred in the four years prior to the effective date of registration.

Crash-Bash Ltd can therefore recover the input VAT paid on the stock held at 1 September 2009. The input VAT on the stock recoverable is £108,600 x 15% = £16,290.

If the claim is for input tax suffered on the supply of services prior to registration then the following conditions must be satisfied.

- The services were supplied for the purposes of a business which either was carried on or was to be carried on by the trader at the time of supply.
- The services were supplied within the six months prior to the date of registration.

Crash-Bash Ltd can therefore recover the input VAT paid on the services incurred in July and August 2009. The input VAT on the services recoverable is £(22,300 + 32,700) = £55,000 x 15% = £8,250.

The total input VAT recovery is therefore £(16,290 + 8,250) = £24,540.

(iii) **Crash-Bash Ltd VAT errors**

If the errors on a VAT return for the period ending 30 November 2009 did not exceed the greater of:

- £10,000 (net under-declaration minus over-declaration); or
- 1% x net VAT turnover for return period ended 30 November 2009 (maximum £50,000);

then the errors can be corrected on the return for the quarter ended 28 February 2010.

Errors in excess of the limit should be notified to HMRC in writing eg by letter.

Default interest will only be charged where the limit for notifying errors in the next return is exceeded.

Question 3

Text references. The calculation of chargeable gains for individuals is covered in Chapter 13. Business reliefs are in Chapter 15 and principal private residence relief is in Chapter 14

Top tips. You were asked to state the chargeable gain for each taxpayer – this is the gain before the annual exemption and so you should not have wasted time by deducting the exempt amount. Also note that in the first two parts of the question, entrepreneurs' relief was to be ignored.

Easy marks. There were easy marks to be gained by calculating the gains before reliefs were applied.

Marking scheme

					Marks
(a)	(i)	Goodwill gain		1	
		Freehold shop gain		1	
		Incorporation relief		1	
		Base cost of shares		1	
					4
	(ii)	Gain chargeable	– explanation	1	
			– calculation	1	
		Base cost of shares		1	
					3

(b)	(i)	Gain	1	
		Gift relief	1	
		Base cost of shares	1	
				3
	(ii)	Gain chargeable	1	
		Base cost of shares	1	
				2
(c)	(i)	Gain	1	
		Period of exemption	3	
		PPR relief	1	
				5
	(ii)	Letting relief exemption	2	
		Revised gain	1	
				3
				20

(a) (i) **Amanda Moon: full incorporation relief**

	£	£
Proceeds of goodwill	90,000	
Less: cost	(nil)	90,000
Proceeds of shop	165,000	
Less: cost	(120,000)	45,000
Gains		135,000

Note

The net current assets are not chargeable assets and therefore are not part of the computation.

Incorporation relief will apply to the whole of the gains because:

- the business is transferred as a going concern
- all its assets (other than cash) are transferred
- the consideration is wholly in shares.

Therefore Amanda will not have any chargeable gains in 2009/10.

The base cost of her 300,000 £1 shares will be £(300,000 – 135,000) = £165,000.

(ii) **Amanda Moon: partial incorporation relief**

If Amanda takes 200,000 £1 shares and £100,000 in cash, the following partial incorporation relief will apply:

$$\text{Gain} \times \frac{\text{Value of shares received from the company}}{\text{Total value of consideration from the company}}$$

$$£135{,}000 \times \frac{£200{,}000}{£300{,}000} = \underline{£90{,}000}$$

Amanda's chargeable gains in 2009/10 will therefore be £(135,000 – 90,000) = £45,000.

The base cost of her 200,000 £1 shares will be £(200,000 – 90,000) = £110,000.

(b) (i) **Bo Neptune: full gift relief**

	£
MV of shares	210,000
Less: cost	(94,000)
Gain	116,000

Gift relief will apply to the whole of the gain because the shares are qualifying business assets (unquoted trading company shares) and there is no consideration paid for the disposal.

Therefore Bo will not have a chargeable gain in 2009/10.

The base cost of the shares for Bo's son will be £(210,000 – 116,000) = £94,000.

(ii) **Bo Neptune: partial gift relief**

If Bo's son paid £160,000 for the shares, this is a sale at an undervalue and partial gift will be available. The part of the gain equal to the excess of actual consideration over actual cost is chargeable immediately and only the balance of the gain is deferred.

Bo's chargeable gain in 2009/10 will therefore be £(160,000 – 94,000) = £66,000. The remainder of the gain of £(116,000 – 66,000) = £50,000 will be deferred by gift relief.

The base cost of the shares for Bo's son will be £(210,000 – 50,000) = £160,000.

(c) (i) **Charles Orion: principal private residence relief**

	£
Sale proceeds	282,000
Less: cost	(110,000)
Gain	172,000
Less: PPR relief (W)	
$\frac{90}{144} \times £172,000$	(107,500)
Chargeable gain	64,500

Working

Period	*Total months*	*Exempt months*	*Chargeable months*
1.10.97 – 31.3.99 (occupied)	18	18	0
1.4.99 – 31.3.02 (see below)	36	36	0
1.4.02 – 30.9.06 (absent)	54	0	54
1.10.06 – 30.9.09 (last 36 months)	36	36	0
	144	90	54

During the period 1.4.99 and 31.3.02 (three years absence for any reason), Charles is deemed to be resident in the property because he actually occupies the property both before and after the period of absence.

(ii) **Charles Orion: principal private residence relief and letting relief**

If Charles had rented out the house between 1 April 1999 and 31 December 2007, he would be entitled to letting relief in respect of the period of letting not covered by the main principal private resident relief (ie 54 months). This is the lowest of:

Gain exempt under PPR rules: $\frac{90}{144} \times £172,000$	£107,500
Gain attributable to letting: $\frac{54}{144} \times £172,000$	£64,500
£40,000 (maximum)	£40,000

The letting relief is therefore £40,000 and the chargeable gain is:

	£
Gain	172,000
Less: PPR relief	(107,500)
Less: letting relief	(40,000)
Chargeable gain	24,500

Question 4

Text references. The badges of trade are discussed in Chapter 7 which also deals with the computation of trading profit. Chapter 2 deals with income tax computation. Chapter 13 covers computation of chargeable gains for individuals.

Top tips. Think carefully about what costs are allowable as part of trading expenses in part (b) and, alternatively, as part of the cost of the asset in part (c). No t all the expenses are allowable in both cases.

Easy marks. The examiner gave you the badges of trade in part (a) so it should have been easy marks to comment on them.

Marking scheme

			Marks
(a)	Subject matter	½	
	Length of ownership	½	
	Frequency of transactions	½	
	Work done	½	
	Circumstances of realisation	½	
	Profit motive	½	
			3
(b)	Income	½	
	Acquisition of house	½	
	Legal fees on acquisition	½	
	Renovation costs	½	
	Legal fees on sale	½	
	Loan interest	1	
	Personal allowance	½	
	Income tax liability	1	
	Class 4 NICs	1½	
	Class 2 NICs	1½	
			8
(b)	Sale proceeds	½	
	Legal fees on sale	½	
	Cost of house	½	
	Legal fees on acquisition	½	
	Enhancement expenditure	½	
	Loan interest – not allowable	½	
	Annual exemption	½	
	Capital gains tax liability	½	
			4
			15

(a) **Badges of trade**

Subject matter
Some assets are commonly held as investments for their intrinsic value, for example an individual may buy shares for dividend income produced by them or may buy a painting to enjoy it as a work of art. A subsequent disposal of an investment asset usually produces a capital gain. Where the subject matter of a transaction is not an investment asset, any profit on resale is usually a trading profit.

Length of ownership
If items purchased are sold soon afterwards, this indicates trading transactions.

Frequency of transactions
Transactions which may, in isolation, be of a capital nature will be interpreted as trading transactions where their frequency indicates the carrying on of a trade.

Work done
When work is done to make an asset more marketable, or steps are taken to find purchasers, this is likely to be indicative of trading.

Length of ownership
If items purchased are sold soon afterwards, this indicates trading.

Circumstances of realisation
A forced sale, for example to realise funds for an emergency, is not likely to be treated as trading.

Motive
The absence of a profit motive will not necessarily preclude a tax charge as trading income, but its presence is a strong indication that a person is trading.

(b) **Simon House income tax and NICs for 2009/10 if trading**

	£	£
Income		260,000
Less: *costs incurred*		
house	127,000	
legal fees on acquisition	1,800	
renovation	50,600	
legal fees on sale	2,600	
loan interest		
£150,000 x 6% x 4/12	3,000	
		(185,000)
Trading income/Net income		75,000
Less: personal allowance		(6,475)
Taxable income		68,525
Income tax		
£37,400 @ 20%		7,480
£31,125 @ 40%		12,450
Income tax liability		19,930
Class 4 NICs		
£(43,875 – 5,715) = £38,160 @ 8%		3,053
£(75,000 – 43,875) = £31,125 @ 1%		311
Total Class 4 NICs		3,364
Class 2 NICs		
£2.40 x 19 weeks (N)		46

Note

Class 2 contributions are paid for complete weeks, running from midnight on Sunday to the following midnight on Saturday, during which self-employed activity takes place for the whole or part of the week. In this case, the first week starts at midnight on Sunday 26 April 2009 and the last week ends on Saturday 5 September 2009, which comprises 19 weeks. Credit should be given by the examiner for any reasonable attempt at this calculation (ie recognising that Class 2 NICs were only due during the period of trading, not for the whole year 2009/10).

(c) **Simon House capital gains tax 2009/10 if not trading**

	£	£
Sale proceeds		260,000
Less: legal fees on sale		(2,600)
Net proceeds of sale		257,400
Less: cost of house	127,000	
legal fees on acquisition	1,800	
renovation	50,600	
loan interest (N)	0	
		(179,400)
Chargeable gain		78,000
Less: annual exemption		(10,100)
Taxable income		67,900
Capital gains tax		
£67,900 @ 18%		12,222

Note

The loan interest is a revenue expense and so is not allowable in computing the chargeable gain.

Question 5

Text references. Corporation tax losses are covered in Chapter 21.

Top tips. Don't forget to set up a loss memorandum for each loss so that you can see how the loss is utilised.

Easy marks. You should have been able to state at least 2 of the principles of claiming loss relief in part (a).

Marking scheme

			Marks
(a)	Rate of tax	1	
	Timing of relief	1	
	Gift aid donations not relieved	1	
			3
(b)	Trading income	½	
	Property business income	½	
	Chargeable gains	½	
	Loss relief – y/e 31 December 2006	2	
	Loss relief – y/e 30 September 2009	2½	
	Gift aid donations	½	
	Unrelieved losses	½	
			7
			10

(a) **Choice of loss relief**

The three factors that will influence a company's choice of loss relief claims are:

- **The rate at which relief will be obtained:**
  - 29.75% if the small companies' marginal relief applies (best use)
  - 28% at the full rate (second best use)
  - 21% at the small companies' rate (third best use)
- **How quickly relief will be obtained**: loss relief against total profits is quicker than carry forward loss relief.
- **The extent to which relief for gift aid donations might be lost.**

(b) **Volatile Ltd**

	P/e 31.12.05	Y/e 31.12.06	Y/e 31.12.07	P/e 30.09.08
	£	£	£	£
Trading income	44,000	0	95,200	78,700
Less: carry forward loss relief	(0)	(0)	(8,700)	(0)
	44,000	0	86,500	78,700
Property business income	9,400	6,600	6,500	0
Chargeable gains	5,100	0	0	9,700
	58,500	6,600	93,000	88,400
Less: current period loss relief	(0)	(6,600)	(0)	(0)
Less: carry back loss relief	(58,500)		(73,250)	(88,400)
	0	0	19,750	0
Less: gift aid donations	(0)	(0)	(1,200)	(0)
PCTCT	0	0	18,550	0

Loss memorandum

		£	£
Loss in y/e 31.12.06			73,800
Less:	used y/e 31.12.06		(6,600)
Less:	used p/e 31.12.05		(58,500)
Less:	used y/e 31.12.07		(8,700)
Loss remaining unrelieved			0
Loss in y/e 30.9.09			186,800
Less:	used p/e 30.9.08		(88,400)
Less:	used y/e 31.12.07		
	3 months to 31.12.07		
	£93,000 x 3/12	23,250	
	9 months to 30.09.07		
	£93,000 x 9/12 = £69,750 max	50,000	
			(73,250)
Loss remaining unrelieved			25,150

Tax tables

TAX RATES AND ALLOWANCES

The following tax rates and allowances are to be used in answering the questions

Income tax

Basic rate	£1 – £37,400	20%
Higher rate	£37,401 and above	40%

A starting rate of 10% applies to savings income where it falls within the first £2,440 of taxable income. UK dividends are taxed at 10% when they fall within the basic rate band and at 32.5% thereafter.

Personal allowances

	£
Personal allowance	6,475
Personal allowance aged 65 to 74	9,490
Personal allowance aged 75 and over	9,640
Income limit for age-related allowances	22,900

Car benefit percentage

The base level of CO_2 emissions is 135 grams per kilometre. A lower rate of 10% applies to petrol cars with CO_2 emissions of 120 grams per kilometre or less.

Car fuel benefit

The base figure for calculating the car fuel benefit is £16,900.

Authorised mileage allowances: cars

Up to 10,000 miles	40p
Over 10,000 miles	25p

Pension scheme limits

Annual allowance	£245,000

The maximum contribution that can qualify for tax relief without any earnings is £3,600.

Capital allowances

Plant and machinery

Main pool – First Year Allowance	40%
Main pool – Writing Down Allowance	20%
Special rate pool	10%

Motor cars

CO_2 emissions up to 110 grams per kilometre	100%
CO_2 emissions between 111 and 160 grams per kilometre	20%
CO_2 emissions over 160 grams per kilometre	10%

Annual investment allowance	£50,000

Industrial buildings

Writing-down allowance	2%

Corporation tax

Financial year	*2007*	*2008*	*2009*
Small companies rate	20%	21%	21%
Full rate	30%	28%	28%
Lower limit	£300,000	£300,000	£300,000
Upper limit	£1,500,000	£1,500,000	£1,500,000
Marginal relief fraction:	1/40	7/400	7/400

Marginal relief

$(M - P) \times I/P \times$ marginal relief fraction

Extended loss relief

Extended loss relief is capped at a maximum of £50,000. For limited companies it applies to loss making accounting periods ending between 24 November 2008 and 23 November 2010.

Value Added Tax

Registration limit		£68,000
Deregistration limit		£66,000
Standard rate	Up to 31 December 2009	15.0%
Standard rate	From 1 January 2010	17.5%

Capital gains tax

Annual exemption	£10,100
Rate of tax for individuals	18%
Entrepreneurs' relief	
Lifetime limit	£1,000,000
Reducing faction	4/9

National insurance (not contracted-out rates)

		%
Class 1 employee	£1 – £5,715 per year	Nil
	£5,716 – £43,875 per year	11.0
	£43,876 and above per year	1.0
Class 1 employer	£1 – £5,715 per year	Nil
	£5,716 and above per year	12.8
Class 1A		12.8
Class 2	£2.40 per week	
Class 4	£1 – £5,715 per year	Nil
	£5,716 – £43,875 per year	8.0
	£43,876 and above per year	1.0

Rates of Interest

Official rate of interest	4.75%
Rate of interest on underpaid tax	2.5% (assumed)
Rate of interest on overpaid tax	0% (assumed)

Calculations and workings need only be made to the nearest £.

All apportionments may be made to the nearest month.

All workings should be shown.

Review Form & Free Prize Draw – Paper F6 Taxation (1/10)

All original review forms from the entire BPP range, completed with genuine comments, will be entered into one of two draws on 31 July 2010 and 31 January 2011. The names on the first four forms picked out on each occasion will be sent a cheque for £50.

Name: ______________________ **Address**: ______________________

How have you used this Kit?
(Tick one box only)

- ☐ Home study (book only)
- ☐ On a course: college ______________
- ☐ With 'correspondence' package
- ☐ Other ______________

Why did you decide to purchase this Kit?
(Tick one box only)

- ☐ Have used the complementary Study text
- ☐ Have used other BPP products in the past
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- ☐ Recommendation by a lecturer at college
- ☐ Saw advertising
- ☐ Other ______________

During the past six months do you recall seeing/receiving any of the following?
(Tick as many boxes as are relevant)

- ☐ Our advertisement in *Student Accountant*
- ☐ Our advertisement in *Pass*
- ☐ Our advertisement in *PQ*
- ☐ Our brochure with a letter through the post
- ☐ Our website www.bpp.com

Which (if any) aspects of our advertising do you find useful?
(Tick as many boxes as are relevant)

- ☐ Prices and publication dates of new editions
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Which BPP products have you used?

Text	☐	*Success CD*	☐	*Learn Online*	☐
Kit	☑	*i-Learn*	☐	*Home Study Package*	☐
Passcard	☐	*i-Pass*	☐	*Home Study PLUS*	☐

Your ratings, comments and suggestions would be appreciated on the following areas.

	Very useful	*Useful*	*Not useful*
Passing ACCA exams	☐	☐	☐
Passing F6	☐	☐	☐
Planning your question practice	☐	☐	☐
Questions	☐	☐	☐
Top Tips etc in answers	☐	☐	☐
Content and structure of answers	☐	☐	☐
'Plan of attack' in mock exams	☐	☐	☐
Mock exam answers	☐	☐	☐

Overall opinion of this Kit *Excellent* ☐ *Good* ☐ *Adequate* ☐ *Poor* ☐

Do you intend to continue using BPP products? *Yes* ☐ *No* ☐

The BPP author of this edition can be e-mailed at: suedexter@bpp.com

Please return this form to: Lesley Buick, ACCA Publishing Manager, BPP Learning Media Ltd, FREEPOST, London, W12 8BR

Review Form & Free Prize Draw (continued)

TELL US WHAT YOU THINK

Please note any further comments and suggestions/errors below.

Free Prize Draw Rules

1 Closing date for 31 July 2010 draw is 30 June 2010. Closing date for 31 January 2011 draw is 31 December 2010.

2 Restricted to entries with UK and Eire addresses only. BPP employees, their families and business associates are excluded.

3 No purchase necessary. Entry forms are available upon request from BPP Learning Media Ltd. No more than one entry per title, per person. Draw restricted to persons aged 16 and over.

4 Winners will be notified by post and receive their cheques not later than 6 weeks after the relevant draw date.

5 The decision of the promoter in all matters is final and binding. No correspondence will be entered into.