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ACCA – Paper F6 Taxation June 2015 FA2014 Final assessment

Instructions

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Notice to Markers

- 1 When commenting about the script performance, please ensure on individual questions and on overall assessment your comments cover areas of examination technique including:

<ul style="list-style-type: none">• Time management	<ul style="list-style-type: none">• Handwriting	<ul style="list-style-type: none">• Presentation and layout	<ul style="list-style-type: none">• Use of English
<ul style="list-style-type: none">• Points clearly and concisely made	<ul style="list-style-type: none">• Relevance of answers to question	<ul style="list-style-type: none">• Coverage and depth of answer	<ul style="list-style-type: none">• Accuracy of calculations
<ul style="list-style-type: none">• Calculations cross-referenced to workings	<ul style="list-style-type: none">• All parts of the requirement attempted	<ul style="list-style-type: none">• Length of answers equates to marks available	<ul style="list-style-type: none">• Read the question carefully

- 2 Please provide suitable constructive comments for both section A, and for each question in section B.

Section / Qn no.	General Comments	Exam Technique Comments

ACCA FINAL ASSESSMENT

Taxation (United Kingdom)

**June 2015
FA2014**

Time allowed

Reading and planning: 15 minutes

Writing: 3 hours

This paper is divided into two sections:

Section A – ALL 15 questions are compulsory and **MUST** be attempted

Section B – ALL SIX questions are compulsory and **MUST** be attempted

Rates of tax and tables are printed on pages 3 – 6

Do NOT open this paper until instructed by the supervisor.

During reading and planning time only the question paper may be annotated. You must NOT write in your answer booklet until instructed by the supervisor.

This question paper must not be removed from the examination hall.

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Paper F6 (UK)

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TAX RATES AND ALLOWANCES

Throughout this assessment:

- 1 **Calculations and workings need only to be made to the nearest £.**
- 2 **All apportionments should be made to the nearest month.**
- 3 **All workings should be shown in Section B.**

INCOME TAX

		<i>Normal rates</i>	<i>Dividend rates</i>
		%	%
Basic rate	£1 – £31,865	20	10
Higher rate	£31,866 – £150,000	40	32.5
Additional rate	£150,001 and above	45	37.5

A starting rate of 10% applies to savings income where it falls within the first £2,880 of taxable income.

Personal allowances

Personal allowance

Born on or after 6 April 1948	£10,000
Born between 6 April 1938 and 5 April 1948	£10,500
Born before 6 April 1938	£10,660

Income limit

Personal allowance	£100,000
Personal allowance (born before 6 April 1948)	£27,000

Residence status

Days in UK	Previously resident	Not previously resident
Less than 16	Automatically not resident	Automatically not resident
16 to 45	Resident if 4 UK ties (or more)	Automatically not resident
46 to 90	Resident if 3 UK ties (or more)	Resident if 4 UK ties
91 to 120	Resident if 2 UK ties (or more)	Resident if 3 UK ties (or more)
121 to 182	Resident if 1 UK tie (or more)	Resident if 2 UK ties (or more)
183 or more	Automatically resident	Automatically resident

Child benefit income tax charge

Where income is between £50,000 and £60,000, the charge is 1% of the amount of child benefit received for every £100 of income over £50,000.

Car benefit percentage

The relevant base level of CO₂ emissions is 95 grams per kilometre.

The percentage rates applying to petrol cars with CO₂ emissions up to:

75 grams per kilometre or less	5%
76 to 94 grams per kilometre	11%
95 grams per kilometre	12%

Car fuel benefit

The base level figure for calculating the car fuel benefit is £21,700.

New Individual Savings Accounts (NISAs)

The overall investment limit is £15,000.

Pension scheme limits

Annual allowance	– 2014–15	£40,000
	– 2011–12 to 2013–14	£50,000

The maximum contribution that can qualify for tax relief without evidence of earnings is £3,600.

Authorised mileage allowance: cars

Up to 10,000 miles	45p
Over 10,000 miles	25p

Capital allowances: rates of allowance

Plant and machinery

Main pool	18%
Special rate pool	8%

Motor cars

New cars with CO ₂ emissions up to 95 grams per kilometre	100%
CO ₂ emissions between 96 and 130 grams per kilometre	18%
CO ₂ emissions above 130 grams per kilometre	8%

Annual investment allowance

Rate of allowance	100%
Expenditure limit	£500,000

Cap on income tax reliefs

Unless otherwise restricted, reliefs are capped at the higher of £50,000 or 25% of income.

CORPORATION TAX

Financial year	2012	2013	2014
Small profits rate	20%	20%	20%
Main rate	24%	23%	21%
Lower limit	£300,000	£300,000	£300,000
Upper limit	£1,500,000	£1,500,000	£1,500,000
Standard fraction	1/100	3/400	1/400

Marginal relief

$$\text{Standard fraction} \times (U - A) \times N/A$$

VALUE ADDED TAX

Standard rate	20%
Registration limit	£81,000
Deregistration limit	£79,000

INHERITANCE TAX: tax rates

£1 – £325,000	Nil
Excess – Death rate	40%
– Lifetime rate	20%

Inheritance tax: taper relief

Years before death	Percentage reduction
	%
Over 3 but less than 4 years	20
Over 4 but less than 5 years	40
Over 5 but less than 6 years	60
Over 6 but less than 7 years	80

CAPITAL GAINS TAX

Rates of tax	– Lower rate	18%
	– Higher rate	28%
Annual exempt amount		£11,000
Entrepreneurs' relief	– Lifetime limit	£10,000,000
	– Rate of tax	10%

**NATIONAL INSURANCE CONTRIBUTIONS
(not contracted out rates)**

		%
Class 1 Employee	£1 – £7,956 per year	Nil
	£7,957 – £41,865 per year	12.0
	£41,866 and above per year	2.0
Class 1 Employer	£1 – £7,956 per year	Nil
	£7,957 and above per year	13.8
Class 1A		13.8
Class 2	£2.75 per week	
	Small earnings exception limit	£5,885
Class 4	£1 – £7,956 per year	Nil
	£7,957 – £41,865 per year	9.0
	£41,866 and above per year	2.0

RATES OF INTEREST (assumed)

Official rate of interest:	3.25%
Rate of interest on underpaid tax:	3%
Rate of interest on overpaid tax:	0.5%

SECTION A – ALL 15 questions are compulsory and MUST be attempted

Please indicate your chosen correct answer for each section A question on a separate sheet of paper and hand this in with your written section B answers for marking.

Note that in the real ACCA F6 exam you will be provided with a Candidate Answer Booklet, the first page of which is specifically designed for providing answers to section A of the exam.

Each question is worth 2 marks.

1 Which of the following are allowable expenses against rental income on an unfurnished property let out by an individual?

- (i) Repairing kitchen units
- (ii) Depreciation
- (iii) Rent not paid by a tenant
- (iv) Interest paid on loan used to acquire the property
- (v) Wear and tear allowance

- A (i), (iii) and (iv)
- B (iii), (iv) and (v)
- C (i), (ii) and (iv)
- D (i), (iii) and (v)

2 Parita is employed by Apricot plc. On 6 September 2014 she was provided with a diesel company car which she used for both business and private purposes. The car has a list price of £28,000 and CO₂ emissions of 134 grams per kilometre. Parita was also provided with fuel for private use from 6 September 2014.

What is Parita's fuel benefit for 2014/15?

- A £2,785
- B £3,593
- C £2,405
- D £4,774

3 Ezra was born on the 1 February 1951. During the tax year 2014/15 his only income was trading income of £124,000. He made a payment of £5,000 into his personal pension scheme during 2014/15.

What is the amount of personal allowance available to Ezra for 2014/15?

- A £8,875
- B £500
- C Nil
- D £1,125

ACCA F6 (UK): TAXATION – FA2014

- 4** Dolly is an employee of Mulch Ltd. She is paid a salary, a cash bonus, has use of a company car for both business and private purposes and is provided with a free parking space at work.

On which elements of her remuneration are Class 1 NICs payable?

- A Salary, bonus, company car and parking space
B Salary only
C Salary, bonus and company car only
D Salary and bonus only
- 5** Carmel's income tax liability for 2014/15 was £12,000 of which £10,200 was met by deduction at source through PAYE and bank interest tax credits.

Carmel also had the following tax liabilities in respect of 2014/15:

	£
Class 2 NIC	143
Class 4 NIC	3,000
Capital gains tax	10,000

What payment on account of her 2015/16 tax liability must Carmel make on 31 January 2016?

- A Nil
B £2,400
C £2,472
D £7,400
- 6** Which of the following statements concerning the Pay as You Earn (PAYE) system are correct?
- (i) An employer is required to submit a Form P60 year-end summary to HM Revenue and Customs by 31 May following the tax year
(ii) An employer must provide an employee with a Form P11D summary of benefits by 6 July following the tax year
(iii) An employer with more than 250 employees must make payments of income tax and National Insurance contributions deducted under PAYE no later than 17 days after the end of the tax month.
- A All of them
B (i) and (ii) only
C (ii) and (iii) only
D (i) and (iii) only

- 7** Kiren has worked for Alpha Ltd, a small unquoted trading company, since 2009. In December 2014 she left the company and sold her 10% shareholding in Alpha Ltd, which she had acquired when she joined the company, realising a chargeable gain of £56,000. Kiren made one other chargeable gain in 2014/15 of £8,000 on the sale of a painting. Kiren's taxable income for 2014/15 is £30,000.

What is Kiren's capital gains tax payable for 2014/15?

- A £6,740
 - B £14,654
 - C £5,300
 - D £7,840
- 8** During 2014/15 Mackenzie made the following disposal of assets:
- (i) Sold a painting for £10,000 which she bought for £2,000 in February 2003.
 - (ii) Gave a necklace to her sister. The necklace was worth £3,000 and she had bought it for £7,000 in January 2012.

What are Mackenzie's total chargeable gains for 2014/15?

- A £6,667
 - B £8,000
 - C £5,667
 - D £4,000
- 9** Which of the following are always exempt transfers for inheritance tax purposes?
- (i) Gift of £5,000 by the groom to the bride on the occasion of their marriage
 - (ii) £250 to an individual on the death of the donor
 - (iii) The first £3,000 in each tax year of any gift made during the donor's lifetime.
- A (i) only
 - B (iii) only
 - C (ii) and (iii)
 - D (i) and (ii)

ACCA F6 (UK): TAXATION – FA2014

- 10** Brendan acquired 6,000 shares in Strictly Ltd for £80,000 on 1 June 2009. On 1 July 2014 he gave 2,500 shares to his son.

The company has 10,000 issued shares which were valued on 1 July 2014 as follows:

<i>Holding</i>	<i>Value per share</i>
Up to 25%	£4
26% to 50%	£6
51% to 74%	£15
75% or more	£25

What is the value transferred for inheritance tax purposes on the gift of the shares?

- A £69,000
 - B £37,500
 - C £10,000
 - D £15,000
- 11** Paracetamol Ltd owns 100% of Ibuprofen Ltd. On 1 January 2015 Paracetamol Ltd sold a freehold property for £400,000, realising a gain (after indexation) of £100,000. On 1 June 2014 Ibuprofen Ltd bought a freehold property for £360,000. Both properties were used for trading purposes.

Assuming any beneficial claims are made what is the gain (after any reliefs) for Paracetamol Ltd?

- A £40,000
 - B £100,000
 - C Nil
 - D £60,000
- 12** In the year ended 31 December 2014 Mongoose Ltd had tax adjusted trading profits of £1,300,000. In addition, Mongoose Ltd had a chargeable gain of £180,000 and received dividends from UK companies of £240,000.

Mongoose has no associated companies.

What is the corporation tax liability of Mongoose Ltd for the year ended 31 December 2014?

- A £310,800
- B £318,124
- C £279,500
- D £318,200

- 13** Demarge Ltd and Ultramarine Ltd are unconnected companies that prepare accounts to 31 March each year.

Demarge Ltd is part of a large group and has thirty five associated companies. For the year ended 31 March 2015 and the previous five accounting periods the company is liable to pay corporation tax at the main rate. Its taxable total profits for the year ended 31 March 2015 are £45,000.

Ultramarine Ltd, has taxable total profits of £12,000,000 in the year ended 31 March 2015. This is the first accounting period for which it will pay tax at the main rate.

Which of the companies will be required to pay its corporation tax liability for the year ended 31 March 2015 by instalments?

- A Neither of them
 - B Demarge Ltd only
 - C Ultramarine Ltd only
 - D Both of them
- 14** A UK VAT registered trader making wholly taxable supplies purchased goods at a VAT exclusive price of £10,000 from a VAT registered trader in an EU member state. The goods would be classed as standard rated if they were supplied in the UK.

Which of the following statements sets out the correct VAT treatment for both parties to the transaction?

- A The EU trader charges VAT at the UK rate. The invoice therefore shows VAT of £2,000. The UK trader can claim this back.
- B The EU trader zero rates the invoice. The UK trader accounts for output VAT of £2,000 in his VAT return and can claim the £2,000 back as input VAT on the same return.
- C The EU trader zero rates the invoice. The UK trader accounts for output VAT of £2,000 but cannot reclaim input VAT as it relates to an overseas transaction.
- D The EU trader zero rates the invoice and the UK trader can claim back input tax of £2,500 ($£10,000 \times 20/80$).

- 15** **Which of the following actions could be required of a firm of Chartered Certified Accountants under the Money Laundering Regulations?**

- (i) Keep the client informed of all correspondence that the firm has with the National Crime Agency about them
- (ii) Encourage all staff to report any suspicions they have of money laundering activities directly to the National Crime Agency
- (iii) Appoint a member of staff who has the expertise to determine whether a transaction constitutes money laundering

- A (ii) and (iii)
- B (i) and (iii)
- C (i) and (ii)
- D (iii) only

SECTION B – ALL SIX questions are compulsory and MUST be attempted

- 1** Loser Ltd started to trade on 1 July 2011. Its results for the year ended 30 June 2012, the nine-month period ended 31 March 2013, the year ended 31 March 2014 and the year ended 31 March 2015 are as follows:

	y/e 30.6.2012	p/e 31.3.2013	y/e 31.3.2014	y/e 31.3.2015
	£	£	£	£
Trading profit/(loss)	123,400	(25,700)	36,400	(128,300)
Property profit/(loss)	(3,600)	4,500	8,100	5,600
Chargeable gain	–	7,000	–	–
Qualifying charitable donations	(9,600)	(800)	(1,200)	(1,100)

The company has trading losses brought forward as at 1 July 2011 of £5,000, and capital losses of £10,000.

Required:

Assuming that Loser Ltd claims relief for its losses as early as possible, calculate the company's taxable total profits for the year ended 30 June 2012, the nine-month period ended 31 March 2013, the year ended 31 March 2014 and the year ended 31 March 2015.

Your answer should show the amount of unrelieved losses as at 31 March 2015.

(Total: 10 marks)

- 2** Herbert has been registered for value added tax (VAT) since starting his sole trader business in July 2012.

He has provided the following information for the quarter ended 30 June 2014.

- (1) He has issued sales invoices of £25,000 for standard rated supplies and £3,000 for zero rated supplies. Both figures are VAT exclusive. Herbert always gives a 5% discount for prompt payment.
- (2) His standard rated expenses (including VAT) for the quarter were as follows:

	£
Car repairs and servicing (Herbert uses the car 25% privately)	706
Repairs to the mini tractor	470
Entertaining a major UK customer	175
Staff Christmas lunch (for staff only)	142
Other expenses (all allowable for VAT)	2,350

Required:

- (a) Calculate the amount of VAT payable by Herbert for the quarter ended 30 June 2014.**

Give brief explanations for your treatment of all items. (7 marks)

- (b) Advise Herbert of the VAT implications of ceasing to trade on 30 September 2014.**

(3 marks)

(Total: 10 marks)

- 3** Christa Watson, a widow aged 77, died on 23 March 2015. Her husband made no gifts during his lifetime and left his entire estate to Christa when he died.

When she died she owned the following net assets:

- (1) Her main residence valued at £506,800. At March 2015, there is an outstanding mortgage of £75,000 on the property.
- (2) Other net assets are valued for IHT purposes at £650,000. This figure is before taking account of the outstanding personal tax liabilities owed by Christa of £5,250 and her funeral expenses of £2,650.

On 20 July 2013 Christa gave a 10% interest in shares in Spades Ltd, an unquoted investment company, to her son. The value of the gift of shares before exemptions was £150,140.

Apart from the gift of shares in Spades Ltd, Christa made the following cash gifts during her lifetime:

<i>Date</i>	<i>To</i>	<i>Amount</i>
		£
20.6.2008	Son	398,000
3.3.2010	Trust fund for grandchildren	211,000

The 20 June 2008 gift was made on the occasion of her son's marriage.

Under the terms of her will, Christa left £325,000 in cash to her nephew with the residue of her estate to her son.

Required:

Explain the inheritance tax implications resulting from Christa's lifetime gifts and death on 23 March 2015.

Your answer should include a calculation of any inheritance tax liabilities arising.

The nil rate bands in earlier years were as follows:

2008/09	£312,000	
2009/10	£325,000	
2013/14	£325,000	(Total: 10 marks)

- 4** (a) Sam sold her house for £165,000 on 31 March 2015. She had purchased the house on 1 January 2000 for £60,000 and had spent £25,000 on structural alterations in June 2001.

Sam had let one-third of the house for residential purposes from 1 September 2001 until it was sold. Sam did not own any other house and had lived in the house throughout her period of ownership.

Required:

Calculate Sam's chargeable gain for the year 2014/15. (7 marks)

ACCA F6 (UK): TAXATION – FA2014

- (b) Emma purchased an antique tapestry on 1 April 2004 for £12,500. The tapestry was damaged on 1 May 2014 when it was worth £30,000. After the damage the tapestry was worth £5,000.

On 1 July 2014 insurance proceeds of £30,000 were received, which were not used to restore the tapestry.

Required:

Calculate the chargeable gain and revised base cost in respect of the tapestry.
(3 marks)

(Total: 10 marks)

- 5** Mirabelle Martineau, born on 2 August 1967, has been a self-employed as a landscape gardener since 1 July 2014.

Her profits, adjusted for income tax but before capital allowances, were:

	£
1.7.14 – 30.6.15	25,000
1.7.15 – 30.6.16	50,000
1.7.16 – 30.9.17	35,000

Capital equipment was purchased as follows:

	£
1.8.14 Mini-tractor	7,000
1.9.14 Car (CO ₂ emissions 140 grams per kilometre)	17,500
1.10.14 Mini-bulldozer	9,000

None of the assets are to be treated as short-life assets.

Private usage of the car by Mirabelle was estimated at 25%.

Mirabelle ceased trading on 30 September 2017 and sold the assets for:

	£
Mini-tractor	4,000
Car	8,000
Mini-bulldozer	4,500

Mirabelle's only chargeable asset for capital gains purposes was goodwill.

This realised a chargeable gain in 2017/18, before the annual exempt amount, of £22,220. This gain qualifies for Entrepreneurs' relief.

She also received dividend income of £10,910 (net) in 2017/18.

Required:

- (a) Calculate the amounts assessed to income tax as trading income on Mirabelle for the years 2014/15, 2015/16, 2016/17 and 2017/18. **(10 marks)**
- (b) Calculate the income tax payable and capital gains tax payable by Mirabelle for 2017/18. **(5 marks)**

Assume that the FA2014 rates and allowances apply throughout this question.

(Total: 15 marks)

- 6 Spectrum Ltd is a computer manufacturer. The company's summarised statement of profit or loss for the year ended 31 March 2015 is as follows:

	£	£
Gross profit		1,342,239
Operating expenses		
Depreciation	102,195	
Gifts and donations (Note 1)	2,800	
Impaired debts (Note 2)	1,420	
Professional fees (Note 3)	12,400	
Repairs and renewals (Note 4)	128,200	
Other expenses (Note 5)	416,025	
	—————	(663,040)
Operating profit		679,199
Profit from sale of capital assets		
Disposal of factory building (Note 6)		96,095
Income from investments		
Loan interest (Note 7)		15,605
		—————
		790,899
Interest payable (Note 8)		(48,400)
		—————
Profit before taxation		742,499
		—————

Note 1 – Gifts and donations

Gifts and donations are as follows:

	£
Gifts to customers (bottles of champagne costing £20 each)	1,720
Donation to a national charity	1,000
Donation to a local charity (Spectrum Ltd received free advertising in the charity's magazine)	80
	—————
	2,800
	—————

Note 2 – Impaired debts

Impaired debts are as follows:

	£
Trade debts recovered from previous years	(2,680)
Loan to a customer written off	4,100
	—————
	1,420
	—————

Note 3 – Professional fees

Professional fees are as follows:

	£
Accountancy and audit fee	6,200
Legal fees	
– in connection with the acquisition of a 25-year property lease	3,000
– Debt collection	3,200
	12,400

Note 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.

Note 5 – Other expenses

Other expenses include £5,000 for leasing a car with CO₂ emissions of 135 grams per kilometre. The remaining expenses are all fully allowable.

Note 6 – Disposal of factory building

The profit of £96,095 is in respect of a freehold warehouse building that was sold on 20 November 2014 for £293,995. A chargeable gain of £20,695 was realised on the disposal.

Note 7 – Loan interest received

The loan interest is in respect of a loan that was made on 1 June 2014. Interest of £11,555 was received on 30 November 2014, and interest of £4,050 was accrued at 31 March 2015. The loan was made for non-trading purposes.

Note 8 – Interest payable

The interest payable is in respect of a loan note that is used for trading purposes.

Note 9 – Plant and machinery

On 1 April 2014 the tax written down values of plant and machinery were as follows:

	£
General pool	10,000
Special rate pool	17,500
Short-life asset	2,300

The following transactions took place during the year ended 31 March 2015:

		<i>Cost/(proceeds)</i>
		£
14 June 2014	Sold a motor car	(33,000)
6 October 2014	Purchased a new motor car	16,000
1 November 2014	Sold the short-life asset	(460)
10 December 2014	Purchased equipment	507,800

The car sold on 14 June 2014 for £33,000 originally cost £31,100 on 27 October 2012 and had a CO₂ emission rate of 169 g/km. The motor car purchased on 6 October 2014 has a CO₂ emission rate of 77 grams per kilometre.

Required:

- (a) Calculate Spectrum Ltd's tax adjusted trading profit for the year ended 31 March 2015.

Your computation should commence with the profit before taxation figure of £742,499 and should list all the items mentioned in Notes (1) to (8) indicating by the use of zero (0) any items that do not require adjustment. (12 marks)

- (b) Calculate Spectrum Ltd's taxable total profits for the year ended 31 March 2015. (3 marks)

(Total: 15 marks)

