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ACCA – Paper P6
Advanced Taxation
June 2015
FA2014
Final assessment

Instructions

- Please complete your personal details above.
- All scripts should ideally be submitted to your Kaplan centre for marking via email to help speed up the marking process.
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Marking Report

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:

• Time management	• Handwriting	• Presentation and layout	• Use of English
• Points clearly and concisely made	• Relevance of answers to question	• Coverage and depth of answer	• Accuracy of calculations
• Calculations cross-referenced to workings	• All parts of the requirement attempted	• Length of answers equates to marks available	• Read the question carefully

2 Please provide suitable constructive comments for each question.

Question number	**General Comments**	**Exam Technique Comments**

ACCA FINAL ASSESSMENT

Advanced Taxation (United Kingdom)

June 2015
FA2014

Paper P6 (UK)

Time allowed
Reading and planning: 15 minutes
Writing: 3 hours

This paper is divided into two sections:

Section A – BOTH questions are compulsory and MUST be attempted

Section B – TWO questions ONLY to be attempted

Tax rates and allowances are on pages 3 – 7

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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TAX RATES AND ALLOWANCES

SUPPLEMENTARY INSTRUCTIONS

1 **You should assume that the tax rates and allowances for the tax year 2014/15 and for the Financial year to 31 March 2015 will continue to apply for the foreseeable future unless you are instructed otherwise.**

2 **Calculations and workings need only to be made to the nearest £.**

3 **All apportionments should be made to the nearest month.**

4 **All workings should be shown.**

INCOME TAX

		Normal rates %	*Dividend rates* %
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

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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 base level of CO_2 emissions is 95 grams per kilometre.

The percentage rates applying to petrol cars with CO_2 emissions up to this level are:

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

Car fuel benefit

The base 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
Lifetime allowance		£1,250,000

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

Authorised mileage allowances: cars

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

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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

Standard fraction × (U – A) × N/A

Patent box

Net patent profit × ((Main Rate – 10%) / Main Rate)

VALUE ADDED TAX

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

INHERITANCE TAX: Nil rate bands and tax rates

	£
6 April 2014 to 5 April 2015	325,000
6 April 2013 to 5 April 2014	325,000
6 April 2012 to 5 April 2013	325,000
6 April 2011 to 5 April 2012	325,000
6 April 2010 to 5 April 2011	325,000
6 April 2009 to 5 April 2010	325,000
6 April 2008 to 5 April 2009	312,000
6 April 2007 to 5 April 2008	300,000
6 April 2006 to 5 April 2007	285,000
6 April 2005 to 5 April 2006	275,000
6 April 2004 to 5 April 2005	263,000
6 April 2003 to 5 April 2004	255,000
6 April 2002 to 5 April 2003	250,000
6 April 2001 to 5 April 2002	242,000
6 April 2000 to 5 April 2001	234,000
6 April 1999 to 5 April 2000	231,000

Rate of tax on excess over nil rate band	– Lifetime rate	20%
	– Death rate	40%

Inheritance tax: Taper relief

Years before death	*% 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
		Employment allowance	£2,000
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

Official rate of interest:	3.25%
Rate of interest on underpaid tax:	3.0%
Rate of interest on overpaid tax:	0.5%

STAMP DUTY LAND TAX

	%
£150,000 or less	Nil
£150,001 – £250,000	1
£250,001 – £500,000	3
£500,001 – £1,000,000	4
£1,000,001 – £2,000,000 (2)	5
£2,000,001 or more (2)	7

(1) For residential property, the nil rate is restricted to £125,000.

(2) The 5% and 7% rates apply to residential properties only. The 4% rate applies to all non-residential properties where the consideration is in excess of £500,000.

STAMP DUTY

Shares	0.5%

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SECTION A

BOTH questions are compulsory and MUST be attempted.

1 An extract from an e-mail from your manager is set out below.

> I attach a schedule received this morning from Brian Snow, the managing director of Worldwide plc, a large UK resident trading company.
>
> He has requested a meeting next week to discuss the tax implications of various transactions planned or undertaken by the company during the year ended 31 October 2015.
>
> This email will make more sense when you have read Brian's schedule, so I suggest you read that first.
>
> I would like you to prepare briefing notes for me to take to my meeting with Brian. Your notes should cover the following:
>
> – Advice for Worldwide plc on the corporation tax implications of transactions (1) to (5). I need you to support this with calculations where possible.
>
> – Could you also set out some explanations of how Worldwide plc will be affected by the requirement to make quarterly instalment payments in respect of its corporation tax liability for the year ended 31 October 2015? Brian is not sure how this system works, and wants to know when the company will have to pay its tax, as they have never had to pay by instalments in the past. You don't need to calculate the corporation tax liability here.
>
> – Advice on the conditions that must be met for Worldwide plc to register with Bandit Ltd as a group for VAT purposes, together with an explanation of the consequences of being group VAT registered. Could you also set out some thoughts as to whether or not you think this would be beneficial for Worldwide plc?
>
> – An explanation of the VAT implications if Worldwide plc imports goods from overseas, either from a VAT registered company within the European Union or from Narnia.
>
> Note that from our tax files you will see that
>
> – In all cases, the overseas forecast profits are the same for accounting and taxation purposes.
>
> – The double taxation treaties between the UK, Upland and Leftland provide that overseas taxes are relieved as a tax credit against UK corporation tax.
>
> – Worldwide plc has not made the election to exempt profits of an overseas permanent establishment.
>
> – Worldwide plc is a large company for the purposes of research and development and transfer pricing legislation.

The schedule from Brian Snow is set out below:

Worldwide plc – year ended 31 October 2015

Worldwide plc has forecast trading profits for the year ended 31 October 2015 of £3,000,000.

The following transactions have taken/will take place during the year to 31 October 2015.

(1) On 1 January 2015 Worldwide plc purchased an 80% shareholding in Otros Inc, a manufacturing company resident in and controlled from the country of Upland. At the same time it lent the company £6,000,000 at 6% interest, which is an appropriate market rate. Otros Inc has forecast profits for the year ended 31 October 2015 are £950,000, and these will be subject to corporation tax at the rate of 21% in Upland.

On 15 May 2015, Otros Inc is planning to pay a dividend of £400,000, and this will be subject to withholding tax at the rate of 7%.

During the year ended 31 October 2015, the interest paid by Otros Inc is £300,000, and this will be subject to withholding tax at 5%.

(2) During June 2015, Worldwide plc is planning to sell 15,000 units of a product to Otros Inc at a price of £17 per unit. This is 20% less than the trade selling price given to other customers.

(3) On 1 December 2014, Worldwide plc set up a branch in the country of Leftland. The branch is controlled from Leftland, and its forecast profits for the period to 31 October 2015 are £240,000. These are subject to tax at the rate of 35% in Leftland. Half of the profits after tax will be remitted to the UK.

(4) On 30 April 2015, Worldwide plc is planning to sell its 75% shareholding in Excess Ltd, an investment company resident in the UK, for £2,350,000. The disposal, if chargeable, will result in a gain (after indexation allowance) of £1,120,000.

Worldwide plc transferred an office block to Excess Ltd on 20 July 2009, when the office block was valued at £840,000. The office block originally cost Worldwide plc £350,000 on 17 June 2004. It is still owned by Excess Ltd, and is currently valued at £960,000. The indexation allowance from June 2004 to July 2009 is £67,900, and from June 2004 to April 2015 it is £145,250. Excess Ltd prepares its accounts to 31 October, and pays corporation tax at the main rate.

(5) On 1 March 2015, Worldwide plc purchased a 90% shareholding in Bandit Ltd, a UK-resident company. The company is forecast to make a trading loss of £320,000 for the year ended 31 October 2015. On 20 January 2014, Bandit Ltd sold investments for £570,000, resulting in a capital loss of £230,000.

VAT issues

Worldwide plc and Bandit Ltd are not currently registered as a group for VAT purposes, but are considering the possibility of registering as a VAT group.

Worldwide plc's sales are all standard rated, whilst Bandit Ltd's are zero-rated. The purchases for both companies are standard rated.

In addition, Worldwide plc expects to incur standard rated overhead expenditure of £300,000 in the year ended 31 October 2015 that cannot be directly attributed to either of the companies' sales.

Worldwide plc charges Bandit Ltd a management charge of £10,000 per quarter in respect of the services of its accountancy department.

It is likely that Worldwide plc will start importing goods in the near future; either from VAT registered companies within the European Union, or from Narnia.

Required:

Prepare the briefing notes requested by your manager.

You should assume today's date is 15 April 2015.

You should assume that the rates and allowances of the Financial Year 2014 will continue to apply for the foreseeable future.

The marks are allocated as follows.

(a) Corporation tax implications of transactions (1) to (5) with supporting calculations. (18 marks)

(b) The effect of making quarterly instalment payments. (3 marks)

(c) Group VAT registration issues. (7 marks)

(d) VAT implications of importing goods. (3 marks)

Appropriateness of the format and presentation of the notes and the effectiveness with which the information is communicated. (4 marks)

(Total: 35 marks)

2 John Dukes is a partner in the firm for which you work. He has sent you the following memo by email:

To: A. Employee

From: J. Dukes

Date: 3 March 2015

Subject: Diane Minor's new business

I have received an email from Diane Minor and I have forwarded the relevant parts to you.

Diane is an existing client of the firm who is considering setting up her own business. She has a number of queries about this and I would like you to prepare notes for a meeting that I will be having with Diane next week.

Specifically I would like you to prepare notes that cover the differences between trading as a sole trader and as a company covering the following issues:

– rates of tax paid on profits

– liability to National insurance

– payment dates of tax

– withdrawal of profits

– relief for trading losses

– relief for any future research and development expenditure.

At the end of the notes I would like you to give a recommendation as to whether Diane should start trading as a sole trader or through a company.

I would also like you to prepare computations comparing the total tax and National Insurance payable on the estimated figures for the year end 31 March 2016 assuming Diane trades as a sole trader or through a company.

For the purposes of the calculations assume that if Diane trades through a company, she will withdraw a gross salary of £14,772 (which equates to a net salary of £13,000) and will receive cash dividends of £5,000.

You can ignore the loss in the year ended 31 March 2016 for these calculations and you can assume that the rates and allowances for the tax year 2014/15 and the financial year 2014 apply.

The extracts from Diane's email are set out below.

Extract 1

As you know I have had enough of city life and have just resigned from my lucrative directorship of XYZ plc. The £200,000 salary and perks I have had for the last ten years may sound attractive but I now want to work less and get my work-life balance back in order.

So, on 1 April 2015, I plan to set up my own business which I will operate from the top floor of my house. With the initial set up costs and marketing I need to do, I think that in my first year to 31 March 2016 I will make a small loss of about £4,000.

However, in the year ended 31 March 2017 I estimate that I should have gross income of £60,000 and the following expenses:

(1) Car running expenses (including petrol) of £3,200. The car will cost £15,500, has CO_2 emissions of 153 g/km and a manufacturer's list price of £16,750. I estimate that I will use the car approximately 25% for private purposes and I will fund all of my petrol costs from the business.

(2) Other allowable expenses of approximately £3,740.

I then anticipate steadily increasing income and profits thereafter.

It is likely that in the year ended 31 March 2018 I will begin to invest in research and development in order to investigate a brand new product I am considering bringing to the market.

Extract 2

I am unsure as to whether I should initially set up the business as a sole trader or through a company. I would be grateful if you could advise me as to the differences in tax treatment of each trading vehicle.

For example, I have been told that there are significant advantages in operating as a company rather than a sole trader, but not necessarily when you are making losses. I am not sure why though.

In either case, I will need to withdraw income net of income tax and national insurance to live on and I think that I need net income of around £18,000 per annum. If the business is run as a company I could have some of it paid as a dividend at the end of the year, say £5,000.

Required:

Prepare the briefing notes requested by John Dukes.

The marks are allocated as follows.

(a) Notes contrasting the tax treatment of trading as a sole trader and as a company covering the six issues mentioned in John Dukes' email and giving a recommendation as to how the business should be set up. (11 marks)

(b) Computations comparing the total tax and National insurance payable on the estimated figures for the year end 31 March 2017 assuming Diane trades as a sole trader or through a company. (14 marks)

Assume that the tax rates and allowances for 2014/15 and Financial Year 2014 apply throughout the question.

Ignore VAT **(Total: 25 marks)**

SECTION B

TWO questions ONLY to be attempted

3 Millie, aged 48, owns a sole trader business which she started in 1999. The business is a shop selling crafting products and pottery.

The business has built up a good reputation in the area and at crafting shows. As a result, in the next month or so, Millie wants to incorporate the business into a new company, Crafty Products Ltd. The consideration for the assets of the business will be shares in the new company, or a mixture of shares and cash. Millie will be the sole shareholder and director.

The following information has been obtained from a telephone conversation with Millie and from client files.

Estimated gains on incorporation:

Asset	*Market value*	*Estimated capital gains (before reliefs)*
	£	£
Inventory	30,000	Nil
Goodwill	50,000	50,000
Property	80,000	15,000

Crafty Products Ltd

– To prepare accounts to 31 December each year.

– Tax adjusted trading profits for year ended 31 December 2016 estimated at £85,000.

– After deducting gross salary to Millie of £45,000.

Millie

– Has substantial investment income.

– Additional rate taxpayer.

– No other capital disposals in the tax year.

– Wants to maximise the use of available reliefs at the time of incorporation.

– Does not want to transfer the cash in the business to the company.

– Wants to maximise the amount of cash she can take as consideration for her business assets.

– Is considering retaining ownership of the business property as a personal asset and renting it to the company as a way of extracting funds.

– Wants to extract a further £20,000 as an additional bonus payment or as a dividend, if the business is doing well.

Required:

Assuming that today's date is 7 December 2015, advise Millie of the following:

(a) The two capital gains tax (CGT) deferral reliefs available on the incorporation of her business.

You should explain how each relief operates and state the conditions necessary for the relief to be given, including the time limit for any claims to be made.

You are not required to consider the use of an Enterprise Investment Scheme (EIS). **(7 marks)**

(b) Assuming that Millie has decided to retain the business property as a personal asset and to charge rent to the company for the use of the property:

(i) Advise Millie and the new company of the tax consequences that will arise and state the effect of retaining the property on the availability of the capital gains tax (CGT) deferral reliefs identified above. **(5 marks)**

(ii) Calculate the maximum amount of cash sale proceeds Millie could receive for the sale of the goodwill to the new company, without incurring a capital gains tax (CGT) liability. **(3 marks)**

(c) Assuming Millie wishes to extract an additional bonus payment of £20,000 gross from the company in the year ended 31 December 2016, advise whether the payment should take the form of additional salary or a dividend payment.

For the dividend, assume that the £20,000 represents the cash dividend paid by the company.

Your answer should be supported by relevant calculations. **(5 marks)**

Assume that the tax rates and allowances for 2014/15 and Financial Year 2014 apply throughout the question.

(Total: 20 marks)

4 Elise Teen, a UK resident who was born on 9 June 1961, is a self-employed management consultant. She is seeking advice on how to invest some surplus funds she has, which are currently invested in an ordinary deposit account at a building society. She would like to invest these funds before 6 April 2015, in a way that will reduce her overall liability to income tax.

The following information has been obtained from a meeting with Elise.

Elise – background and financial position

– Single

– Surplus funds £330,000

– Only outgoing is interest of £8,800 per annum (gross) on her mortgage of £160,000

– Plans to invest £70,000 (gross) in a personal pension plan. She is not currently a member of any pension scheme.

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Taxable income – 2014/15

– Assessable profits from her profession estimated at £350,000

– Only other income £6,600 interest on the deposit account with the building society.

Elise's nephew Simon is a director of Sharp Ltd, an unquoted trading company. He is planning to sell his shares in Sharp Ltd to his son, and would like you to advise him on the capital gains tax implications.

The following information has been obtained from client files.

Simon – background

– Aged 48 years

– Married to Stella, aged 32 years

– Acquired 25% of the shares in Sharp Ltd, at par, on its incorporation on 1 October 2002

– Works as a full-time director of Sharp Ltd

– Higher rate taxpayer

– No other capital disposals in 2014/15.

Sharp Ltd

– Has share capital of 200,000 £1 ordinary shares

– Current value of shares is as follows:

Shareholding	*Value per share*
15%	£12.00
25%	£14.00
35%	£15.50
50%	£17.00

Sale of shares in Sharp Ltd

– On 31 March 2015, Simon is to sell 30,000 of his shares in Sharp Ltd to his son for £75,000.

Required:

(a) (i) Calculate Elise's income tax liability for 2014/15 assuming she invests £70,000 (gross) in her personal pension plan.

Your answer should include an explanation of the tax implications of investing this amount in her pension plan.

Advise Elise of whether or not it would be beneficial for her to actually contribute this amount, and whether or not this is a suitable investment for her. (9 marks)

(ii) As an alternative to investing in a personal pension scheme, Elise is considering utilising her surplus funds by repaying some, or all, of her mortgage.

Outline the tax implications and advise Elise of the suitability of this alternative given her particular circumstances. (2 marks)

(iii) Elise has asked you to recommend a pension fund to invest in and arrange the setting up of the fund.

If you do so, your firm will receive a commission of 10% from the pension fund company.

Explain what action you should take in accordance with the ACCA Ethical Guidelines. (2 marks)

(b) Compute the capital gains tax payable by Simon as a result of the sale of the shares in Sharp Ltd to his son, assuming all beneficial reliefs are claimed.

Show the capital gains base cost carried forward for the son's shares. (7 marks)

You should assume that the tax rates and allowances for 2014/15 apply throughout.

Ignore stamp duty.

(Total: 20 marks)

5 Li Yu is resident in the UK, but is not domiciled in the UK. Following her marriage to a UK citizen, Li is planning to become UK domiciled, and wants to know how this will affect the potential inheritance tax liability on her death.

She would also like you to calculate her income tax for 2014/15.

The following information has been obtained from a recent meeting with Li.

Li Yu – background

– Aged 63.

– Born in the country of Kinga.

– Lived in the UK since 6 April 1999.

– Employed by the Kingan National Bank in London.

Assets owned at 5 April 2015

– Main residence valued at £263,500. This is situated in the UK and has an outstanding endowment mortgage of £80,000.

– A house in Kinga worth £60,000.

– 40,000 shares in Kestrel plc, a company quoted on the UK Stock Exchange at 308p – 316p.

– Antiques worth £35,000. These were bought in Kinga but are now situated in Li's UK residence.

– Bank deposits of £65,000 with the Kingan National Bank, of which £45,000 is held at the London branch and £20,000 at the main branch in Kinga.

– An interest-free loan of £15,000 to Li's brother who is resident in Kinga. The loan was used to purchase property situated in the UK.

Income – tax year 2014/15

– Salary from Kingan National Bank in London £39,030, from which £6,311 income tax was deducted under PAYE.

– Interest from Kingan National Bank of £1,680 (net) credited to the bank account in London

– Interest from Kingan National Bank of £750 (net of 15% foreign tax) credited to the account in Kinga. None of this interest was remitted to the UK.

– Dividends from Kestrel plc of 15p per share.

Li's will

– Under the terms of her will, Li has left all of her assets to her three children.

– If she were to die, Kingan death duty of £21,000 would be payable irrespective of her domicile.

Notes:

There is no double taxation agreement between the UK and Kinga.

All of the above figures are in pounds sterling.

Required:

(a) Advise Li of:

(i) when she will be treated as domiciled in the UK for the purposes of IHT (3 marks)

(ii) how she could acquire domicile in the UK under general law. (2 marks)

(b) Advise Li as to the potential increase in her liability to UK IHT if she were to become domiciled in the UK.

Your answer should include an explanation of why Li's assets are or are not subject to UK IHT. (9 marks)

(c) Calculate the UK income tax payable by Li for 2014/15.

Your answer should include an explanation of why Li's overseas income is or is not subject to UK income tax. (6 marks)

(Total: 20 marks)

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