

**ACCA INTERIM ASSESSMENT**

**Taxation  
(United Kingdom)  
December 2011**

**Time allowed**

Reading and planning: 15 minutes

Writing: 3 hours

All FIVE questions are compulsory and MUST be attempted.

**Tax rates and allowances are on pages 3 – 5**

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

### INCOME TAX

		<b>Normal rates</b>	<b>Dividend rates</b>
		%	%
Basic rate	£1 – £37,400	20	10
Higher rate	£37,401 to £150,000	40	32.5
Additional rate	£150,001 and over	50	42.5

A starting rate of 10% applies to savings income where it falls within the first £2,440 of taxable income.

### Personal allowances

Personal allowance	Standard	£6,475
Personal allowance	65 – 74	£9,490
Personal allowance	75 and over	£9,640
Income limit for age related allowances		£22,900
Income limit for standard personal allowance		£100,000

### Car benefit percentage

The base level of CO<sub>2</sub> emissions is 130 grams per kilometre.

	%
Petrol cars with CO <sub>2</sub> emissions of 75 grams per kilometre or less	5
Petrol cars with CO <sub>2</sub> emissions between 76 and 120 grams per kilometre	10

### Car fuel benefit

The base figure for calculating the car fuel benefit is £18,000.

### Pension scheme limits

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

### Authorised mileage allowance: cars

Up to 10,000 miles	40p
Over 10,000 miles	25p

### Capital allowances

	Rate of allowance %
<b>Plant and machinery</b>	
Main pool	20
Special rate pool	10
<b>Motor cars (purchases since 6 April 2009 (1 April 2009 for limited companies))</b>	
CO <sub>2</sub> emissions up to 110 grams per kilometre	100
CO <sub>2</sub> emissions between 111 and 160 grams per kilometre	20
CO <sub>2</sub> emissions above 160 grams per kilometre	10
<b>Annual investment allowance</b>	
First £100,000 of expenditure	100
<b>Industrial buildings</b>	
Writing-down allowance	1

### CORPORATION TAX

<i>Financial year</i>	2008	2009	2010
Small profits rate	21%	21%	21%
Main rate	28%	28%	28%
Lower limit	£300,000	£300,000	£300,000
Upper limit	£1,500,000	£1,500,000	£1,500,000
Standard fraction	7/400	7/400	7/400

### Marginal relief

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

### VALUE ADDED TAX

Standard rate of VAT	– Up to 3 January 2011 – From 4 January 2011 onwards	17.5% 20%
Registration limit		£70,000
Deregistration limit		£68,000

### INHERITANCE TAX

#### Tax rates

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

**INHERITANCE TAX****Taper relief**

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

**CAPITAL GAINS TAX**

Rates of tax	– Lower rate	18%
	– Higher rate	28%
Annual exemption		£10,100
Entrepreneurs' relief	– Lifetime limit	£5,000,000
	– Rate of tax on gain	10%

**NATIONAL INSURANCE CONTRIBUTIONS****(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:	4.0%
Rate of interest on underpaid tax:	3.0%
Rate of interest on overpaid tax:	0.5%



**ALL FIVE QUESTIONS ARE COMPULSORY AND MUST BE ATTEMPTED**

- 1 (a) Joseph Kent, aged 58, commenced in business on 1 October 2010 as a joiner making conservatories.

His adjusted profits before capital allowances are estimated as follows:

	£
Period to 31 December 2011	147,375
Year ended 31 December 2012	83,705
Year ended 31 December 2013	86,800

Capital additions and disposals are budgeted as follows:

		£
Additions:		
1 October 2010	Motor car 1 (at valuation)	12,200
1 October 2010	Trailer	2,500
1 October 2010	Plant and machinery	100,000
1 October 2010	Van	26,000
1 December 2012	Motor car 2	13,000
Disposals:		
1 December 2012	Motor car 1	7,000
1 January 2013	Plant and machinery (at less than cost)	2,420

Private use of motor cars 1 and 2 has been estimated at 20%. Motor car 1 has CO<sub>2</sub> emissions of 150 grams per kilometre and Motor car 2 has emissions of 170 grams per kilometre. No claim will be made to treat any of the assets as short-life assets.

**Required:**

**Calculate the assessable amounts of his trading profits for the years 2010/11 to 2013/14 inclusive and the amount of any overlap profits.**

**Assume the tax rates and allowances for 2010/11 apply throughout.**

**(16 marks)**

- (b) His wife Sephora, aged 56, is a solicitor employed by a practising firm at a salary of £93,000 per annum.

The following additional information is provided for 2010/11.

- (1) A new petrol-engine car was provided for Sephora's use in August 2009. The list price at that time was £25,000 and the CO<sub>2</sub> emissions were 162g/km. Of this amount, £4,000 was contributed by Sephora so that a better car could be provided. She was required to pay £25 per month towards the private use of the car but not towards the private fuel, all of which was provided by her employers.
- (2) Sephora has received a loan of £60,000 on the matrimonial home from her employers on which she pays interest at 2.25%.
- (3) Sephora made a 'qualifying donation' to the Oxfam charity on 1 July 2010 of £395 under the Gift Aid scheme.

**Required:**

**Calculate Sephora's income tax liability for 2010/11.**

**(9 marks)**

**(Total: 25 marks)**

2 In 2010/11, Humphrey has received income from various sources:

	£	
Employment income	19,000	PAYE £5,000
Pension from former employer (armed forces)	5,000	PAYE £1,000
Profits from his part-time self-employed business	13,000	
Treasury stock interest, received gross	500	(gross)
Bank deposit account interest	720	
UK dividends	54	

Humphrey also received benefits from his employer. These were as follows:

- (1) A company car. The list price of the car was £20,000 and has recorded CO<sub>2</sub> emissions of 185 g/km. The diesel car was available for the whole year.
- (2) Fuel for private use of the company car was also paid for by the employer. Humphrey contributed £5 per week for some of his private use of fuel.
- (3) Humphrey uses his employer's tools occasionally during the course of his work; however, he has borrowed and used throughout the year some of his employer's tools for private purposes costing £400.
- (4) Humphrey was provided with a house to live in by his employer. It cost them £200,000 to purchase in June 2005 and has an annual value of £3,000 p.a. The accommodation is not job related.
- (5) Humphrey was loaned £50,000, interest free, by his employer on 6 August 2009. He has not repaid any during the year.
- (6) Finally, Henry is provided with a mobile phone which cost his employer £250 and is used to make both business and private calls.

**Required:**

- (a) Calculate the income tax payable by Humphrey for 2010/11. (19 marks)
- (b) Calculate the Class 1A national insurance payable by Humphrey's employer for 2010/11. (3 marks)
- (c) Calculate the National Insurance due on the trading income for 2010/11.

(3 marks)

**(Total: 25 marks)**

3 Reginald owns four houses which he lets unfurnished with the exception of number 4 which is let furnished. All rents are receivable quarterly in advance on the quarter days, 31 March, 30 June, 30 September and 31 December.

**House number 1**

A lease at an annual rental of £4,000 ended on 29 June 2010. The house was then unoccupied until 30 December 2010. Between these dates it was re-decorated internally at a cost of £2,000. It was re-let from 1 January 2011 on an annual tenancy of £5,000 per annum.

**House number 2**

This property was purchased by Reginald on 1 June 2010. Immediate repair work costing £3,000 was carried out on the leaking roof, the damage to which had been reflected in the purchase price of the property. The property was let on 1 October 2010 on a seven-year lease at an annual rental of £4,000. The incoming tenant was charged a premium of £2,000.



**House number 3**

A lease at an annual rental of £3,000 expired on 28 September 2010. Internal and external painting and decorating was carried out at a cost of £2,500. The property was re-let on 1 April 2011 at an annual rental of £4,000. The property remained empty between 29 September 2010 and 31 March 2011.

**House number 4**

Although this house is let furnished, it is not a qualifying holiday letting business. The annual rent is £6,000. Total allowable expenditure is £7,000 including water rates of £200, council tax of £600 and loan interest of £2,000 on a loan taken out to purchase the property. The loan interest was paid gross. It had been agreed with HM Revenue & Customs that a wear and tear allowance be given instead of capital allowances. This wear and tear allowance is not included in the £7,000.

**Required:**

**Calculate the amounts assessable on Reginald for 2010/11 in respect of the above properties. (10 marks)**

- 4** Cowalsh Ltd is a UK resident company which manufactures accessories for telecommunication systems. It has no associated companies.

The company's results for the year ended 31 March 2011 were as follows:

	£
Trading profits (as adjusted for taxation but before capital allowances) (Note 1)	2,300,000
Dividends received from overseas companies (Note 2)	60,000
Bank interest receivable	1,500
Chargeable gains	25,000
Loan note interest received (gross amount)	80,000
Gift Aid payment to a national charity	5,000

The loan note interest received is the same as the amount credited in the accounts on an accruals basis.

The company has traded in a purpose-built unit since 1 January 1998. The total cost of the unit was as follows:

	£
Freehold land	50,000
Manufacturing area	240,000
Canteen	30,000
Design office	90,000
General office	130,000
	540,000

On 1 April 2010 the tax written down values of plant and machinery were:

	£
General pool	190,000
Short-life asset	4,000

The short-life asset was purchased on 1 December 2005 and sold on 31 October 2010 for £9,000.

On 1 November 2010 a new car (with CO<sub>2</sub> emissions of 150 g/km) costing £18,000 was purchased for the managing director. The car previously used by him was sold for £8,000. It had cost £10,000 in July 2008 and was put into the general pool. The managing director uses his car for private purposes 40% of the time.

A new precision engineering machine was purchased on 1 August 2010 for £112,500.

**Notes**

- (1) In arriving at the adjusted trading profit, an adjustment had been made for small capital additions acquired in April and May 2010 totalling £8,750 which the company had written off as repairs in the income statement but which have been added back for tax purposes.
- (2) The company had received £60,000 of dividends on 31 May 2010 from an overseas company in which it owned 15% of the share capital.
- (3) On 1 April 2010 the company had capital losses brought forward of £30,000.
- (4) The Gift Aid payment was made in March 2011.

**Required:**

**Calculate the corporation tax liability for the year ended 31 March 2011 and state how any unrelieved amounts are to be dealt with. (15 marks)**

- 5 Nash is self-employed running a music shop. His income statement for the year ended 5 April 2011 is as follows:

	£	£
Gross profit		198,300
Less: Expenses		
Depreciation	2,244	
Motor expenses (Note 1)	8,330	
Professional fees (Note 2)	3,978	
Repairs and renewals (Note 3)	570	
Travelling and entertaining (Note 4)	3,935	
Wages and salaries (Note 5)	65,620	
Other expenses (Note 6)	66,693	
	_____	(151,640)
Net profit		16,660

**Note 1 – Motor expenses**

During the year ended 5 April 2010 Tony drove a total of 17,000 miles, of which 2,125 were driven when he went on holiday to Europe. The balance of the mileage is 20% for private journeys and 80% for business journeys.

**Note 2 – Professional fees**

The figure for professional fees consists of £782 for accountancy, £527 for personal financial planning advice, £459 for debt collection, and £2,210 for fees in connection with an unsuccessful application for planning permission to enlarge Tony’s freehold music shop.

**Note 3 – Repairs and renewals**

The figure for repairs and renewals consists of £230 for a replacement hard drive for the shop’s computer, and £340 for a new printer for this computer.

**Note 4 – Travelling and entertaining**

The figure for travelling and entertaining consists of £3,128 for Tony's business travelling expenses, £408 for entertaining suppliers, and £399 for entertaining employees.

**Note 5 – Wages and salaries**

The figure for wages and salaries includes a salary of £13,600 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 £10,200 p.a.

**Note 6 – Other expenses**

The figure for other expenses includes £64 in respect of a wedding present to an employee, £603 for Tony's health club subscription, £51 for a donation to a political party, and £153 for a trade subscription to the Guild of Musical Instrument Retailers.

**Note 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 2011 were £3,468.

**Note 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 2011 was £576, and 25% of this related to business telephone calls. The cost of the private telephone is not included in the income statement expenses of £151,640.

**Note 9 – Goods for own use**

During the year ended 5 April 2011 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 £510, and had a selling price of £808.

**Note 10 – Plant and machinery**

The tax written down values for capital allowances purposes at 6 April 2010 were:

	£
General pool	6,290
Expensive motor car purchased in 2008	13,770

The expensive motor car is used by Tony.

**Other information**

During the tax year 2010/11, Tony received dividends of £4,500, interest from government stocks (gilts) of £3,000, interest of £2,900 from an investment account with the National Savings and Investment Bank, as well as interest of £450 from an individual savings account. These were the actual cash amounts received.

**Required:**

- (a) Calculate Tony's tax adjusted trading profit for the year ended 5 April 2011. Your computation should commence with the net profit figure of £16,660 and should list all the items referred to in Notes (1) to (9) indicating by the use of zero (0) any items that do not require adjustment. (16 marks)
- (b) Calculate Tony's income tax payable for the tax year 2010/11. (6 marks)
- (c) Advise Tony as to how long he must retain the records used in preparing his tax return for 2010/11, and the potential consequences of not retaining the records for the required period. (3 marks)
- (Total: 25 marks)**

