ACCA REVISION MOCK

Advanced Taxation (United Kingdom)

June 2012

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 – 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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TAX RATES AND ALLOWANCES

SUPPLEMENTARY INSTRUCTIONS

1 **You should assume that the tax rates and allowances for the tax year 2011/12 and for the Financial year to 31 March 2012 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 – £35,000	20	10
Higher rate	£35,001 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 £2,560 of taxable income.

Personal allowances

		£
Personal allowance	Standard	7,475
Personal allowance	65 – 74	9,940
Personal allowance	75 and over	10,090
Income limit for age related allowances		24,000
Income limit for standard personal allowance		100,000

Car benefit percentage

The base level of CO_2 emissions is 125 grams per kilometre.

A rate of 5% applies to petrol cars with CO_2 emissions of 75 grams per kilometre or less, and a rate of 10% applies where emissions are between 76 and 120 grams per kilometre.

Car fuel benefit

The base figure for calculating the car fuel benefit is £18,800.

Individual Savings Accounts (ISAs)

The overall investment limit is £10,680, of which £5,340 can be invested in a cash ISA.

Pension scheme limits

Annual allowance	£50,000
Lifetime allowance	£1,800,000

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

Authorised mileage allowances: cars

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

Capital allowances: rates of allowance

Plant and machinery	%
Main pool	20
Special rate pool	10
Motor cars	
(purchases since 6 April 2009 (1 April 2009 for limited companies))	
CO_2 emissions up to 110 grams per kilometre	100
CO_2 emissions between 111 and 160 grams per kilometre	20
CO_2 emissions above 160 grams per kilometre	10
Annual investment allowance	
First £100,000 of expenditure	100

CORPORATION TAX

Financial year	*2009*	*2010*	*2011*
Small profits rate	21%	21%	20%
Main rate	28%	28%	26%
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	3/200

Marginal relief

Standard fraction $\times$ (U – A) $\times$ N/A

VALUE ADDED TAX

Standard rate of VAT	20.0%
Registration limit	£73,000
Deregistration limit	£71,000

INHERITANCE TAX

Tax rates

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

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

Nil rate bands

	£		£
6 April 2011 to 5 April 2012	325,000	6 April 2003 to 5 April 2004	255,000
6 April 2010 to 5 April 2011	325,000	6 April 2002 to 5 April 2003	250,000
6 April 2009 to 5 April 2010	325,000	6 April 2001 to 5 April 2002	242,000
6 April 2008 to 5 April 2009	312,000	6 April 2000 to 5 April 2001	234,000
6 April 2007 to 5 April 2008	300,000	6 April 1999 to 5 April 2000	231,000
6 April 2006 to 5 April 2007	285,000	6 April 1998 to 5 April 1999	223,000
6 April 2005 to 5 April 2006	275,000	6 April 1997 to 5 April 1998	215,000
6 April 2004 to 5 April 2005	263,000		

CAPITAL GAINS TAX

Rates of tax	– Lower rate	18%
	– Higher rate	28%
Annual exempt amount		£10,600
Entrepreneurs' relief	– Lifetime limit	£10,000,000
	– Rate of tax	10%

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%

NATIONAL INSURANCE CONTRIBUTIONS

(not contracted out rates)

			%
Class1	Employee	£1 – £7,225 per year	Nil
		£7,226 – £42,475 per year	12.0
		£42,476 and above per year	2.0
Class 1	Employer	£1 – £7,072 per year	Nil
		£7,073 and above per year	13.8
Class 1A			13.8
Class 2		£2.50 per week	
		Small earnings exception limit £5,315	
Class 4		£1 – £7,225 per year	Nil
		£7,226 – £42,475 per year	9.0
		£42,476 and above per year	2.0

STAMP DUTY LAND TAX

£150,000 or less (1)	0%
£150,001 – £250,000 (2)	1%
£250,001 – £500,000	3%
£500,001 or more (3)	4%

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

(2) From 25 March 2010 to 24 March 2012 there is an exemption for first time buyers purchasing residential properties for no more than £250,000.

(3) For residential property, where consideration exceeds £1 million the rate is 5%.

STAMP DUTY

Shares	0.5%

SECTION A

BOTH questions are compulsory and MUST be attempted.

1 BAZZANO PLC

An extract from an email from your manager is set out below.

I have just had a telephone conversation with Laurie, the managing director of Bazzano plc. We discussed the anticipated results of the Bazzano plc group of companies and the proposed acquisition of a majority holding in Marianna Ltd. All the relevant details are included in the attached memorandum, so you might want to read that first.

I am meeting with Laurie tomorrow afternoon to go through the tax implications of the various issues, and would like you to prepare some meeting notes for me to use.

The notes should cover the following:

(i) **Use of Bazzano plc trading loss for the year ended 30 June 2012**

A description and evaluation of the options available in respect of the trading loss of Bazzano plc for the year ended 30 June 2012.

I would like a recommendation on the most tax efficient use of this loss, together with details of and time limits for any elections or claims that would need to be submitted, assuming that the loss is to be used as soon as possible and is not to be carried forward. Watch out for the effect on any double tax relief available.

I realise that Laurie did not give me all the information we need so please identify any additional information that you think could have an effect on our advice.

(ii) **Use of Marianna Ltd trading loss for the year ending 31 March 2013**

Explanation with supporting calculations of the amount of the trading loss of Marianna Ltd for the year ending 31 March 2013 that can be used by Bazzano plc.

Comment on the ability of Marianna Ltd to use any unrelieved amounts in future.

(iii) **Treatment of loan for the year ended 30 June 2013**

Explanation of the tax treatment of the loan arrangement fee and the interest payable on the loan of £250,000.

(iv) **Sale of premises**

Advice on the tax implications of the proposed sale of the office building by Leonardo Ltd to Donatella Ltd in June 2013. Make sure that you consider all relevant taxes.

Evaluation of the proposed strategy to reduce the capital gain arising on the sale of the office building by offsetting the capital losses on the sale of the warehouse and the manufacturing premises, on the assumption that both Donatella Ltd and Leonardo Ltd will pay corporation tax at the rate of 26%, for their years ended 31 March 2013 and 30 June 2013.

(v) **VAT issues**

Calculation of the VAT payable by, or repayable to, Marianna Ltd in respect of the year ended 31 March 2014. I believe that their supplies are all currently standard rated for the purposes of VAT.

Please provide a very brief note stating whether or not it would be beneficial for Marianna Ltd to enter into a group VAT registration with Bazzano plc.

Tax manager

The memorandum attached to the email is set out below.

To Internal filing

From Tax manager

Date 2 July 2012

Subject Bazzano plc group of companies

This memorandum sets out the matters discussed with Laurie, the managing director of Bazzano plc, earlier today.

Group structure

Bazzano plc has owned the whole of the ordinary share capital of Spoleto Ltd and Leonardo Ltd since 2000. All three companies are resident in the UK.

Results for the year ended 30 June 2012

	Bazzano plc	*Spoleto Ltd*	*Leonardo Ltd*
	£	£	£
Taxable trading profit/(loss)	(147,000)	950,000	53,000
Chargeable gain	172,000	–	–
Rental income	78,000	–	–

Bazzano plc's rental income of £78,000 per annum arises in respect of Bazzano House, an office building acquired on 1 April 2006.

Bazzano plc had a capital loss of £123,000, which was carried forward as at 1 July 2011.

Bazzano plc and Leonardo Ltd both carry on trades in the UK. Spoleto Ltd conducts both its manufacturing and trading activities wholly in the country of Umbriana. The system of corporation tax in Umbriana is mainly the same as that in the UK although the rate of corporation tax is 21%.

Proposed acquisition of 60% of Marianna Ltd and 100% of Donatella Ltd

Bazzano plc has agreed that it will purchase 60% of the share capital of Marianna Ltd, a UK resident manufacturing company, on 1 September 2012. The remaining shares are all owned by Eggi Ltd.

It is anticipated that Marianna Ltd will make a tax adjusted trading loss of approximately £70,000 in the year ending 31 March 2013.

On the same date, Bazzano plc will also purchase 100% of the share capital of Donatella Ltd, a UK resident trading company that has never made a trading loss. Donatella Ltd prepares accounts to 30 June each year.

Business loan

Bazzano plc will need to take out a loan to finance the purchase of Marianna Ltd and Donatella Ltd. The company intends to borrow £250,000 from NatEast Bank Ltd on 1 September 2012. NatEast Bank Ltd will charge Bazzano plc a £2,000 loan arrangement fee and interest at 6.8% per annum. Bazzano plc only needs £190,000 of the loan to buy the share capital of the two companies and intends to use the balance of the loan as follows: £30,000 to carry out repairs to Bazzano House; and the remainder to pay for an advertising campaign.

Sale of premises

On 1 June 2013, Donatella Ltd will sell its manufacturing premises for £150,000 and move to a rented factory. The premises were originally built in 1976 at a cost of £75,000, and were acquired by Donatella Ltd on 1 June 2004 for £245,000. The value of the premises at 1 September 2012 was also £150,000. We agreed that the indexation factor on the disposal can be assumed to be 47%.

Donatella Ltd previously sold its warehouse in June 2012, realising a capital loss of £62,000.

It is proposed that an office building owned by Leonardo Ltd be sold to Donatella Ltd in July 2013 at its market value. This building will then be sold on by Donatella Ltd, to Norma Ltd, an unconnected third party in August 2013, giving rise to a capital gain of £102,000.

The intention is that this gain will be reduced by the capital losses arising on the sale of the manufacturing premises and the warehouse.

Expansion overseas

After the purchase of Marianna Ltd, Bazzano plc has plans to return the company to profitability by introducing new products and by exporting its products overseas.

The budgeted turnover of Marianna Ltd for the year ended 31 March 2014 is as set out below. All amounts are stated exclusive of VAT.

		£
UK customers:	– VAT registered	119,000
	– non-VAT registered	35,000
European Union customers:	– VAT registered	441,000
	– non-VAT registered	98,000
Other non-UK customers		252,000
		945,000

Marianna Ltd will incur input VAT of £9,300 per month from 1 April 2013 in respect of purchases from UK businesses. It will also purchase raw materials from Gelato SpA for £23,000 in November 2013. Gelato SpA is resident and registered for VAT in Italy.

Tax manager

Required:

Prepare the notes requested by your manager. The following marks are available.

(i) Use of Bazzano plc trading loss for the year ended 30 June 2012 (11 marks)

(ii) Use of Marianna Ltd trading loss for the year ending 31 March 2013 (4 marks)

(iii) Treatment of loan (6 marks)

(iv) Sale of premises (8 marks)

(v) VAT issues (4 marks)

Additional marks will be awarded for the appropriateness of the format and presentation of the memorandum and the effectiveness with which the information is communicated. (2 marks)

You should assume that the tax rates and allowances for the tax year 2011/12 and for the financial year to 31 March 2012 apply throughout the question.

(Total: 35 marks)

2 An extract from an email from your manager, Lucy Clint, is set out below:

> I had a meeting with Mike Snow yesterday. Mike is currently employed as a full-time IT consultant by a large organisation, but is being made redundant. He does not plan to find another job as he has had enough of being an employee and wants the freedom of working for himself. To achieve this, he is planning to set up his own IT consultancy business.
>
> Mike is particularly keen to ensure that he minimises his tax liability by whatever means are necessary even if it means some manipulation of the figures, and has suggested that his wife Hannah should declare some of Mike's income on her tax return.
>
> I would like you to draft a letter to Mike incorporating the following:
>
> (a) An explanation of the possible tax treatment of Mike's redundancy payment.
>
> (b) For Mike's planned business, prepare estimates for Mike of the total tax saving for the couple, compared to Mike running the business alone, under each of the following alternatives:
>
> (i) Mike employs Hannah at a gross salary of £15,000 per annum
>
> (ii) Mike runs the business in partnership with Hannah, each being assessed on 50% of the profit.
>
> Think carefully about your approach, and make sure that your workings are easy to follow. You can prepare your calculations based on a full year. Don't forget to consider National Insurance!
>
> (c) Assuming that the business then diversifies as suggested, estimate Mike and Hannah's saving in total tax if the business is transferred to a company, again based on a full year. Ignore the proposed acquisition of the car.
>
> (d) Calculate the annual after tax cost to MHS Consulting Ltd of buying or leasing the car for Mike's use, and advise on the most cost effective option.
>
> When calculating the annual cost of buying the car, you should assume that the total capital allowances can be spread over the two year life of the car. You should also assume that MHS Consulting Ltd will be VAT registered.
>
> (e) I am a little worried about Mike's suggestion that we should consider manipulating the figures. I would like you to draft a note about the differences between tax avoidance and evasion, and our ethical stance on this. This is not to be part of the letter, but just something for me to refer to when I bring up this issue in my next meeting with Mike.

The memorandum attached to the email is set out below.

To	Internal Filing
From	Lucy Clint
Date	2 March 2012
Subject	Mike and Hannah Snow

Redundancy package

Mike will receive a lump sum cash payment of £20,000 on 31 March 2012, and will be allowed to keep his company car, which is currently worth £9,000.

Mike's business

Mike intends to commence business as a sole trader providing IT consultancy services on 1 November 2012.

Mike estimates that his revenue and profits for the first year will be modest and he will run the business himself. Profits will rise steadily, and within a year or two Mike estimates that his tax adjusted profits will amount to £60,000 per annum. He is considering involving his wife Hannah in the business as his personal assistant and bookkeeper.

Expansion of business

Later on, Mike is also considering an opportunity to diversify his business by offering computer servicing and repairs, which will increase the profits of the business to £120,000 per annum. Mike and Hannah will either each be assessed on profits of £60,000, or a company, MHS Consulting Ltd, will be formed to run the business with Mike and Hannah each receiving a gross salary of £30,000 per annum.

Lease or buy car

Assuming that MHS Consulting Ltd is formed, Mike plans to acquire a car through the company for his own personal use.

The car, which has emissions of 107g/km, runs on petrol and has a list price of £25,000, could either be purchased outright for £23,000 (including VAT), or could be leased at a cost of £380 (including VAT) per month.

If the car was purchased, it would be sold in two years time for £17,000.

Background information

Mike and Hannah have rental income each year equal to the personal allowance but no other income other than that discussed above.

Required:

Prepare the draft letter requested by your manager.

Marks are available for the components of the letter as follows:

(a) Explanation of tax treatment of redundancy payment (4 marks)

(b) Estimates of tax savings for the couple with Hannah as employee versus partner. (8 marks)

(c) Estimates of tax savings if the business is transferred to a company. (3 marks)

(d) Advice regarding lease or purchase of car by MHS Consulting Ltd (5 marks)

(e) Notes regarding avoidance, evasion and ethical issues. (5 marks)

Marks are also available for the appropriateness of the format, presentation of the letter, and the effectiveness with which the information is communicated. (3 marks)

You may assume that the rates and allowances for the tax year 2011/12 and for the financial year to 31 March 2012 will continue to apply for the foreseeable future.

(Total: 28 marks)

SECTION B

TWO questions ONLY to be attempted

3 Tahoa would like some advice on the tax implications of several gifts he made during 2011/12.

The following information has been obtained from client files and from a meeting with Tahoa.

BTP plc shares

- On 22 December 2011 Tahoa gave his son, Tirua, 80,000 shares in BTP Plc.
- The shares were quoted at £2.70 – £2.78, with recorded bargains of £2.68, £2.71, £2.72 and £2.78.
- Tirua intends to sell the shares in 2015 when he leaves school.
- Tahoa purchased 60,000 shares in BTP Plc in January 1994 for £68,000. He purchased a further 30,000 shares on 11 January 2010 for £94,450.
- BTP Plc is a trading company with an issued share capital of 12 million ordinary shares. Tahoa is not employed by the company.

Necklace

- On 18 November 2011 Tahoa gave his daughter a necklace on her wedding day.
- The necklace was worth £17,400 and had been inherited by Tahoa in May 2001 from his mother.
- Tahoa's mother purchased the necklace for £12,300 in June 1988. It was worth £14,200 when she died.

AJB Ltd shares

- On 4 March 2012 Tahoa gave all of his 40,000 shares in AJB Ltd to a relevant property trust which he established for the benefit of his three nephews.
- AJB Ltd is a trading company owned in six equal shares by Tahoa, his two brothers, and their three wives.
- Tahoa acquired the shares in 1992 for £60,000 and works for the company part time.
- 10% of the company's assets are held as investments
- The relevant values of a share in AJB Ltd on 4 March 2012 were as follows:

Shareholding	*Value per share*
	£
Up to 24%	14.40
25% to 49%	18.60
50% to 70%	24.10
More than 70%	29.50

Tahoa

– Was born on 20 May 1955 and is resident, ordinarily resident and domiciled in the United Kingdom.

– Is a higher rate taxpayer.

– Will pay any tax due in respect of the disposals set out above.

– Had previously made a chargeable lifetime transfer of £400,000 (gross) in December 2008.

Required:

(a) State, together with supporting calculations, the capital gains tax implications of the three gifts and explain any available reliefs.

You should ignore the annual exemption. (8 marks)

(b) State, together with supporting calculations, the inheritance tax implications of the three gifts.

You should ignore the annual exemption. (7 marks)

(c) State the income tax implications of the gifts of shares. (3 marks)

(Total: 18 marks)

4 Jardin Ltd is a small company involved in the manufacture of gardening equipment. Due to a rapid expansion of its trade, the company requires an additional factory.

Fleur, one of the director shareholders of Jardin Ltd, has been in dispute with the other shareholders over plans to expand the company's activities. In order to resolve the position it has been agreed that Fleur will sell her shares back to the company.

The following information has been obtained from client files and meetings with the parties involved.

Jardin Ltd

– An unquoted UK resident trading company.

– Share capital consists of 60,000 ordinary shares issued at £1 per share in March 2004.

Purchase of the factory

– A new factory will be constructed by a building company.

– This will cost £420,000 (including VAT)

Future rental

– Jardin Ltd is not ruling out the possibility of a downturn in trade in the future, and will consider letting out part of the factory in this event.

VAT

– Garden Ltd is registered for VAT, and currently makes only standard rated supplies.

The purchase of own shares:

– The company will purchase all of Fleur's shares for £9.50 per share.

– The transaction will take place by the end of 2012.

Fleur

– Purchased 9,000 shares in Jardin Ltd for £3.10 per share on 31 October 2007.

– None of the other shareholders has any connection with Fleur.

– Has no income in the tax year 2012/13.

– Has chargeable capital gains in the tax year 2012/13 of £3,400, but does not anticipate making any capital gains in the foreseeable future.

– Has houses in the UK and the country of Utopia and divides her time between them.

Required:

(a) For value added tax purposes, explain:

(i) the effect of renting out the factory on Jardin Ltd's ability to recover input tax

(ii) the effect on the input VAT reclaimed on the initial purchase price

(iii) the implications of opting to tax the factory, and

(iv) the factors affecting the decision to opt to tax. (8 marks)

(b) (i) Prepare detailed calculations to determine the most beneficial tax treatment of the payment Fleur will receive for her shares; (7 marks)

(ii) Identify the points that must be confirmed and any action necessary in order for capital treatment to apply to the transaction. (3 marks)

You should assume that the tax rates and allowances for 2011/12 will continue to apply for the foreseeable future.

(Total: 18 marks)

5 AMRIT

Amrit has asked you for advice regarding the taxation of future rental income from his property in the country of Kika.

He also wants to know whether payments to a personal pension should be made by him personally, or by his company, Lorton Ltd.

The following information has been extracted from client files and from telephone conversations with Amrit.

Amrit:

– Is 42 years old.

– Is domiciled in the country of Kika, where he plans to return on his retirement at the age of 65.

– Moved to the UK in March 2001 to set up a wedding hire business.

– Incorporated his business, Lorton Ltd in January 2007.

– Receives a gross monthly salary of £1,100 from Lorton Ltd.

– Pays himself a cash dividend of £25,200 in June each year.

– Currently has no income apart from that received from Lorton Ltd.

Property in Kika:

– Amrit purchased a lakeside property in Kika in March 2012.

– Once the property is renovated, Amrit will use it for holidays for approximately three months each year.

– The property will be rented out for £600 per month (net of expenses) when not in use by Amrit.

– The property is likely to be ready for rental from 1 Feb 2013.

Lorton Ltd:

– A UK resident trading company specialising in wedding hire.

– 100% owned and managed by Amrit.

– Annual taxable total profits of approximately £500,000.

Amrit's pension arrangements:

– Amrit plans to set up a personal pension plan in 2012/13.

– He wants to put gross contributions of £20,000 into the fund in 2012/13.

– The £20,000 contributions will be made either:

  – wholly by Lorton Ltd, or

  – partly by Amrit (to the extent that they are tax allowable), funded by an extra dividend from Lorton Ltd, with the balance paid by Lorton Ltd.

– Amrit will choose the strategy that minimises the total after tax cost of the contributions.

The tax system in the country of Kika:

– The rate of income tax is 7%.

– There is no double tax treaty with the UK.

Required:

(a) Provide a detailed explanation of how the rental income from the property in the country of Kika will be taxed in the UK in 2012/13 and subsequent years.

You should make reference to Amrit's residence, ordinary residence and domicile position.

Advise Amrit on the strategy he should adopt in 2012/13 in order to minimise the total income tax suffered on the rental income.

Calculations are not required for this part of the question. (9 marks)

(b) Evaluate the two proposed strategies in relation to the pension contributions and advise which Amrit should choose. (9 marks)

You should assume that the tax rates and allowances for the tax year 2011/12 and for the financial year to 31 March 2012 will continue to apply for the foreseeable future.

(Total: 18 marks)