

REVISION MOCK SCRIPT SUBMISSION FORM

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ACCA – Paper P6 Advanced Taxation June 2015 Revision Mock

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. Please scan this form and your answer script in a single PDF and email it to your Kaplan centre.
- Alternatively you may post your script to us. If so, please use the correct Royal Mail tariff (large letter).
- Classroom students may submit scripts to their local centre in person. You will be provided with the dated receipt below which you should retain as proof of submission.

Note: If you are a sponsored student, your result will form part of the report to your employer.

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PUBLISHING

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:

| | | | |
|---|--|--|---|
| <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 For each question, please provide suitable constructive comments

| Question Number | General Comments | Exam Technique Comments |
|-----------------|------------------|-------------------------|
| | | |

ACCA REVISION MOCK

Advanced Taxation (United Kingdom)

June 2015

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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Paper P6 (UK)

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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

| | | <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 |

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

| <i>Financial year</i> | <i>2012</i> | <i>2013</i> | <i>2014</i> |
|-----------------------|-------------|-------------|-------------|
| 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)

PAPER P6 (UK): ADVANCED TAXATION (FA2014)

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

| <i>Years before death</i> | <i>% reduction</i> |
|------------------------------|--------------------|
| 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% |
|--------|------|

SECTION A

BOTH questions are compulsory and MUST be attempted.

- 1 Your manager has had a meeting with Ian Kingdom, the managing director of Brunel Ltd. Extracts from the memorandum recording matters discussed at the meeting and from an email from your manager are set out below.

Extract from the memorandum

Group structure

```

graph TD
    Minor[Minor Ltd] -- 40% --> Wadi[Wadi Ltd]
    Brunel[Brunel Ltd] -- 60% --> Wadi
    Brunel -- 70% --> Dawi[Dawi Ltd]
    Wadi -- 15% --> Dawi
    
```

Notes

All of the companies are UK resident trading companies.

Brunel Ltd acquired its 60% share in Wadi Ltd on 1 January 2011.

The 70% share in Dawi Ltd was purchased on 1 April 2015 for £210,000.

Wadi Ltd has owned its 15% share in Dawi Ltd since 1 April 2009.

Brunel Ltd

Brunel Ltd has been a brewer of ales and beers for many years.

In recent years, however, the company's brewing business has been in decline and it has now decided to cease this business at the end of its current accounting year on 31 December 2015. It expects to make a tax adjusted trading loss (before interest payable) of £250,000 in the current year which is entirely in respect of the brewing business. The company plans to continue in business by setting up a chain of retail shops selling wines and beer.

Results for Brunel Ltd

The taxable trading profits (before interest payable) for recent periods have been:

| | £ |
|-------------------------------|--------|
| 12 months to 31 March 2012 | 57,000 |
| 12 months to 31 March 2013 | 45,000 |
| 9 months to 31 December 2013 | 26,600 |
| 12 months to 31 December 2014 | 39,600 |

Rental income of £6,000 per quarter is received in respect of one floor of the company's office building which is rented out. The rental commenced on 1 October 2012.

PAPER P6 (UK): ADVANCED TAXATION (FA2014)

On 1 February 2013, the company made a chargeable gain of £11,000 when disposing of some investments

The company issued £160,000 of 12% loan notes on 30 September 2011 with interest due on 31 March and 30 September each year. These loan notes were issued for trading purposes.

The company makes a donation to a national charity each year on 1 October of £6,000.

Results for Wadi Ltd

Wadi Ltd has always had an accounting date of 31 December and regularly makes annual profits for tax purposes of £20,000.

Results for Dawi Ltd

Dawi Ltd has always had an accounting date of 31 March, and regularly makes annual profits for tax purposes of £10,000.

Imports

Wadi Ltd has recently identified a supplier of crockery in Atlantia (a non EU country) and intends to start importing from them shortly. Wadi Ltd is registered for VAT in the UK and makes standard rated supplies.

VAT group

At present the companies in the Brunel Ltd group are all separately registered for VAT, but Ian is wondering whether a VAT group registration would be beneficial and actually save the group some money.

The VAT figures for the year to 31 December 2015 are as follows:

| | <i>Taxable outputs</i> | <i>Exempt outputs</i> | <i>Input tax relating to taxable supplies</i> | <i>Input tax relating to exempt supplies</i> | <i>Input tax relating to group overheads</i> |
|------------|------------------------|-----------------------|---|--|--|
| | £ | £ | £ | £ | £ |
| Brunel Ltd | 450,000 | | 29,000 | | 8,000 |
| Wadi Ltd | 350,000 | | 20,000 | | 4,000 |
| Dawi Ltd | 50,000 | 350,000 | 7,000 | 78,000 | 20,000 |

Disposal of shares in Dawi Ltd

On 28 February 2016, Brunel Ltd is planning to dispose of a 10% share in Dawi Ltd for £190,000. However, the disposal could be delayed until 31 March 2016.

Email from your manager

Please draft a memorandum for the directors of Brunel Ltd for me to take to my meeting with Ian later this week. The memorandum should cover the following:

(a) Explanations and calculations regarding Brunel Ltd's loss

The objective of the group is to claim relief for Brunel Ltd's loss for the year ended 31 December 2015 as soon as possible.

Prepare calculations, together with supporting explanations, to show how the group's objective can best be achieved, clearly identifying any unrelieved losses as at 31 December 2015 and setting out details of how such amounts may be relieved in future, if at all.

Your explanations should include a brief description of the relevant group relationships that exist for loss relief purposes. This requires some careful consideration, as the group structure is not straightforward.

(b) VAT implications of the proposed imports of Wadi Ltd

Description of the VAT implications of the proposed imports of Wadi Ltd.

(c) VAT group matters

Confirmation of which companies are eligible to join a VAT group, an explanation of the impact of having both taxable and exempt supplies and an evaluation of whether registering as a VAT group would save the group some money.

(d) Disposal of the shares in Dawi Ltd

Advice on the tax consequences of the disposal of the shares in Dawi Ltd, including calculation of any chargeable gain arising. Explanation of the advantages of delaying the disposal until 31 March 2016.

Required:

Prepare the memorandum requested in the email from your manager.

The following marks are available for the four components of the memorandum.

- | | |
|---|-------------------|
| (a) Explanations and calculations regarding Brunel Ltd's loss. | (15 marks) |
| (b) VAT implications of the proposed imports of Wadi Ltd. | (3 marks) |
| (c) VAT group matters. | (6 marks) |
| (d) Disposal of the shares in Dawi Ltd. | (7 marks) |

Professional marks will be awarded in the question for the appropriateness of the format and presentation of the memorandum and the effectiveness with which the information is communicated. **(4 marks)**

The Retail Price Indices to assume:

| | |
|----------------------|--------------|
| April 2015 | 260.0 |
| February 2016 | 264.3 |
| March 2016 | 264.7 |

You should assume that today's date is 3 December 2015 and that the FY2014 rates of tax apply throughout and continue to apply in the future.

(Total: 35 marks)

PAPER P6 (UK): ADVANCED TAXATION (FA2014)

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 prepare the following:

(a) Mike's redundancy payment

An explanation of the possible tax treatment of Mike's redundancy payment.

(b) Expansion of business

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) Transfer of business to company

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) Lease or purchase of car

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) Other issues

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, so that I have something 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 2015
Subject Mike and Hannah Snow

Redundancy package

Mike will receive a lump sum cash payment of £20,000 on 31 March 2015, 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 2015.

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 93g/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 information requested by your manager. Marks are available as follows:

- (a) **Mike's redundancy payment.** (4 marks)
- (b) **Expansion of business.** (8 marks)
- (c) **Transfer of business to company.** (3 marks)
- (d) **Lease or purchase of car.** (5 marks)
- (e) **Other issues.** (5 marks)

You may assume that the 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.

(Total: 25 marks)

SECTION B

TWO questions ONLY to be attempted

- 3** Arthur Morgan was given some shares by his aunt. His aunt has just died, and Arthur is concerned about the possible inheritance tax implications.

Arthur also has some questions about his dividend income and the tax implications of some gifts he has made.

Arthur

- Born on 1 June 1948.
- Retired on 5 October 2014.

Shares in Ocampo Inc

- Given to Arthur by his aunt on 1 June 2013.
- 40,000 shares in Ocampo Inc, a company quoted on the Ganyan Stock Exchange.
- Valued at 204 – 212p at 1 June 2013.
- Were subject to Ganyan death duties of £15,400 on the death of Arthur's aunt.
- Dividends of £6,650 were received during 2014/15 after withholding tax at 5%.

Arthur's aunt

- Had been living in the country of Ganya since moving there from the UK in 1998
- Died on 1 November 2014
- Had made one previous cash gift of £400,000 to Arthur's brother Liam in June 2011.

Shares in Orange plc

- Arthur bought 200,000 £1 ordinary shares for £120,000 in August 2008.
- He gave 24,000 shares to his wife on 30 June 2014 and 16,000 shares to his son on 30 November 2014.
- Orange plc is a quoted company with an issued share capital of 15,000,000 £1 ordinary shares.
- Arthur was never an employee of Orange plc.
- The market value of the shares at 30 June 2014 and 30 November 2014 was £3.20 each.

Arthur's other income

- Salary in the period 6 April 2014 to 5 October 2014 was £31,030.
- Arthur received pension income of £6,785 (gross) during 2014/15.

Required:

- (a) **Set out the issues to be considered in order to determine whether or not the gift of shares from Arthur's aunt is within the scope of UK inheritance tax and the treatment of any inheritance tax suffered in the country of Ganya.**

Calculate the potential inheritance tax payable by Arthur if the gift does fall within the scope of UK inheritance tax and state the due date for payment.
(8 marks)

- (b) **Calculate Arthur's annual dividend income after deduction of all taxes in respect of the shares in Ocamp Inc.**
(4 marks)

- (c) **Calculate the capital gains tax payable on Arthur's gifts of the shares in Orange plc and state the due date for payment.**

Comment briefly on the availability (or not) of gift relief and Entrepreneurs' relief.
(5 marks)

- (d) **State briefly the inheritance tax implications of Arthur's gifts of the shares in Orange plc and comment on the availability (or not) of business property relief.**

(3 marks)

(Total: 20 marks)

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

(a) 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.
- Receives an annual gross salary of £32,000 from Lorton Ltd.
- Currently has no other income.

Property in Kika

- Amrit purchased a lakeside property in Kika in March 2015.
- 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 2016.

The tax system in the country of Kika

- The rate of income tax is 7%.
- There is no double tax treaty with the UK.

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Required:

Provide a detailed explanation of how the rental income from the property in the country of Kika will be taxed in the UK in 2015/16 and subsequent years.

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

Advise Amrit on the strategy he should adopt in 2015/16 in order to minimise the total income tax suffered on the rental income.

Calculations are not required for this part of the question. (10 marks)

(b) Iselle

- Iselle is the daughter of an existing wealthy client of the firm.
- With some help from her father she has purchased a large house in a popular tourist area.
- She plans to convert the house into a bed and breakfast and to start trading on 1 August 2015. Iselle will live in the bed and breakfast to ensure she can manage the daily maintenance required.
- Iselle purchased a car so that she can pick up supplies from the local wholesaler and she has started purchasing the equipment, fixtures and fittings required to kit out the bed and breakfast.
- She has kept all of her business records in a big brown envelope but is now seeking the help of an accountant.
- Iselle has heard that there is a new cash basis option for small businesses and a flat rate expense scheme which could be ideal for her.

Required:

Explain the key facts relating to the cash basis option and the flat rate expense scheme, and the advantages and disadvantages of Iselle opting for these schemes. (6 marks)

(c) Odile

- Odile is the managing director and sole shareholder of Norbert Ltd.
- Norbert Ltd is an unquoted trading company.
- Odile set up the company in 2001.
- Odile now plans to appoint a liquidator to wind up the trade of the company, sell all of the assets and pay off the outstanding liabilities.
- She believes that after doing so there will be £50,000 cash to distribute.
- The original cost of the shares was negligible and can be ignored.

Liquidation of Norbert Ltd

- On 1 July 2015 Odile plans to appoint a liquidator with a view to liquidating the company on 31 October 2015.

Odile

- Odile will have taxable income of £35,000 in 2015/16 (before considering the liquidation proceeds).
- She will make no capital disposals in the year.
- A friend has suggested to her that prior to appointing a liquidator she should pay herself a cash dividend and thereby reduce her tax liability on the liquidation in 2015/16 considerably.

Required:

Explain whether or not the advice Odile has received from her friend is correct.
(4 marks)

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.

(Total: 20 marks)

- 5** Your firm has been asked to give advice to Bolero, who has recently inherited some assets on the death of his father. The advice relates to tax efficient investments and some tax planning ideas that Bolero has.

Bolero

- Married to Frevo.
- The couple have two children who are both at university.
- Bolero's father died on 1 April 2015 leaving Bolero the whole of his estate. Bolero and Frevo immediately resigned from their jobs and now have no income other than that generated from Bolero's inherited investments.
- Bolero, Frevo and the children are resident and domiciled in the UK. Bolero's father was also resident and domiciled in the UK.

Assets inherited from Bolero's father and income generated

| | <i>Market value of assets</i> | <i>Annual income received</i> |
|--|---------------------------------------|---------------------------------------|
| | £ | £ |
| UK assets: | | |
| Father's home | 1,300,000 | |
| UK quoted shares and related dividends | 500,000 | 21,000 |
| UK Government stocks and related interest | 600,000 | 27,000 |
| Investment properties in the country of Hula and related rental income | 800,000 | 72,000 |

PAPER P6 (UK): ADVANCED TAXATION (FA2014)

Bolero's investment ideas

- Bolero and Frevo intend to make the maximum possible tax allowable personal pension contributions.
- Bolero will sell his father's home and invest much of the proceeds in further rental property situated either in the UK or in the country of Hula.
- Bolero wants to invest in unquoted trading companies but does not want to invest in enterprise investment scheme or seed enterprise investment scheme shares due to the level of risk involved.

Bolero's tax planning ideas

- Bolero's friend has convinced him that he would save income tax if he formed a company and transferred the quoted shares and government stocks inherited from his father into it. Bolero would own the whole of the company.
- Bolero is also considering transferring investments to Frevo or their children, if this would be tax effective.

Required:

- (i) Advise Bolero on the suitability of investing in venture capital trusts as an alternative to enterprise investment scheme and seed enterprise investment scheme shares and summarise the tax reliefs available in respect of such an investment. (5 marks)
 - (ii) Explain the maximum tax allowable pension contributions that can be made by Bolero and Frevo and the effect on this, if any, of purchasing further rental properties. (5 marks)
 - (iii) Prepare calculations, with supporting explanations to show that the total tax payable would increase (rather than decrease!) if Bolero were to transfer all of the quoted shares and government stocks to a company wholly owned by him. You should assume that the whole of the new company's post-tax income would be paid as a dividend to Bolero. (7 marks)
 - (iv) Explain the income tax advantages of Bolero transferring investments to Frevo or their children. (3 marks)
- (Total: 20 marks)**