

ACCA FINAL 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

		Normal rates	Dividend rates
		%	%
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 CO₂ emissions is 130 grams per kilometre.

	%
Petrol cars with CO ₂ emissions of 75 grams per kilometre or less	5
Petrol cars with CO ₂ 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
	%
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
Industrial buildings	
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	17.5%
	– From 4 January 2011 onwards	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** Ian Roberts, aged 38, began trading as a printing and publishing consultant on 1 August 2009 preparing accounts to 30 June annually.

His tax adjusted trading profits since commencement are:

	£
Period to 30 June 2010	45,530
Year to 30 June 2011	52,580

Ian receives £4,554 of dividends each year from United Kingdom resident companies. He has no other source of income.

In 2010/11, Ian made a contribution of £10,600 (gross) into his personal pension scheme.

Ian is married to Sally who is employed by Pulsar Ltd. She is paid a gross salary of £38,500 per annum, and paid PAYE of £15,395 in 2010/11.

Sally is paid a bonus in May each year following the Directors' Board meeting in March at which the bonus is decided. Sally received a bonus of £7,700 in May 2010 and £9,350 in May 2011. She pays 5% of her gross salary into the company's registered occupational pension scheme.

Pulsar Ltd provides Sally with a car which had a list price when new in January 2009 of £28,050. The car has a carbon dioxide emission rating of 242 g/km. Sally contributed £5,500 towards the cost of the car when it was first provided.

In 2010/11, Sally drove 12,000 miles, of which 80% were private. Pulsar Ltd pays for all of the running costs of the car including all of the diesel used by Sally. Sally pays £55 per month towards the cost of the diesel used by her for private purposes.

Sally purchased a wide-screen digital television from Pulsar Ltd on 30 June 2010 for £275. The television, which cost Pulsar Ltd £2,420 on 6 April 2008, has always been kept at her house for her use. Its market value was £660 on 30 June 2010.

On 1 August 2010, Pulsar Ltd made a loan of £27,500 to Sally which she used to build a tennis court at her house. Interest is charged on the loan at 1.5% per annum payable monthly in arrears and the loan is due to be repaid in 2012.

Sally received bank interest of £485 in 2010/11.

Required:

- (a) Calculate the income tax payable by Ian Roberts for 2010/11 and state the overlap profits arising on the commencement of the business. (11 marks)**
- (b) Calculate Sally Roberts' income tax payable/repayable for 2010/11. (14 marks)**

(Total: 25 marks)

2 Spectrum Ltd is a computer manufacturer. The company's summarised income statement for the year ended 31 March 2011 is as follows:

	£	£
Gross profit		859,770
Operating expenses		
Depreciation	84,200	
Gifts and donations (Note 1)	9,330	
Impaired debts (Note 2)	8,390	
Professional fees (Note 3)	12,400	
Repairs and renewals (Note 4)	128,200	
Other expenses (Note 5)	420,520	
	(663,040)	
Operating profit		196,730
Profit from sale of fixed assets		
Disposal of factory building (Note 6)		78,100
Income from investments		
Loan interest (Note 7)		15,410
		290,240
Interest payable (Note 8)		(48,600)
		241,640
		241,640

Note 1 – Gifts and donations

Gifts and donations are as follows:

	£
Gifts to customers (rucksacks costing £15 each displaying Spectrum Ltd's name)	1,080
Donation to a recognised political party	5,200
Gifts to customers (bottles of champagne costing £20 each)	1,720
Long service award to an employee	250
Donation to a national charity (made under the Gift Aid scheme)	800
Donation to a national charity (not made under the Gift Aid scheme)	200
Donation to a local charity (Spectrum Ltd received free advertising in the charity's magazine)	80
	9,330
	9,330

Note 2 – Impaired debts

Impaired debts are as follows:

	£
Trade debts recovered from previous years	(2,680)
Trade debts written off	6,970
Loan to a customer written off	4,100
	<hr/>
	8,390
	<hr/>

Note 3 – Professional fees

Professional fees are as follows:

	£
Accountancy and audit fee	5,400
The cost of registering the company's trademark	800
Legal fees	
– in connection with the acquisition of a 25-year property lease	2,100
– Debt collection	3,200
– in connection with a court action for not complying with health and safety legislation	900
	<hr/>
	12,400
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Note 4 – Repairs and renewals

The figure of £128,200 for repairs and renewals includes £41,800 for replacing the roof of an office building, which was in a bad state of repair, and £49,400 for extending the office building.

Note 5 – Other expenses

Other expenses include £2,160 for entertaining suppliers and £5,000 for leasing a car with CO₂ emissions of 165 grams per kilometre. The remaining expenses are all fully allowable.

Note 6 – Disposal of factory building

The profit of £78,100 is in respect of a freehold factory building that was sold on 20 November 2010 for £276,000. The factory was purchased on 18 November 2000 for £197,900. Assume the indexation allowance from November 2000 to November 2010 is £58,000.

The building has always been used by Spectrum Ltd for industrial purposes.

Note 7 – Loan interest received

The loan interest is in respect of a loan that was made on 1 July 2010. Interest of £11,360 was received on 31 December 2010, and interest of £4,050 was accrued at 31 March 2011. The loan was made for non-trading purposes.

Note 8 – Interest payable

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

Note 9 – Plant and machinery

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

	£
General pool	10,000
Expensive motor car	17,500
Short-life asset	2,300

The following transactions took place during the year ended 31 March 2011:

		<i>Cost/(proceeds)</i>
		£
14 June 2010	Sold the expensive motor car	(33,000)
6 October 2010	Purchased a motor car	16,000
1 November 2010	Sold the short-life asset	(460)
10 December 2010	Purchased equipment	57,800

The expensive motor car sold on 14 June 2010 for £33,000 originally cost £31,100. The motor car purchased on 6 October 2010 has a CO₂ emission rate of 107 grams per kilometre.

Required:

- (a) Calculate Spectrum Ltd's tax adjusted trading profit for the year ended 31 March 2011.**

Your computation should commence with the profit before taxation figure of £241,640 and should list all the items mentioned in Notes (1) to (8) indicating by the use of zero (0) any items that do not require adjustment.

(17 marks)

- (b) Calculate Spectrum Ltd's taxable total profits for the year ended 31 March 2011.**

(5 marks)

It has now been discovered that Spectrum Ltd had acquired a 100% shareholding in Rainbow Ltd on 1 April 2010.

Rainbow Ltd made a tax adjusted trading loss of £46,800 for the year ended 31 March 2011 but was profitable in the following year.

On 15 March 2011 Rainbow Ltd purchased a new freehold office building for £270,000 that is to be used 100% for trading purposes.

- (c) (i) State the effect on Spectrum Ltd's taxable total profits for the year ended 31 March 2011 of the acquisition of Rainbow Ltd, assuming all beneficial elections and claims are made in respect of Rainbow Ltd's trading loss and its acquisition of the office building.**

You are not required to rework the taxable total profits calculation.

(4 marks)

- (ii) Compute the corporation tax liability of Spectrum Ltd for the year ended 31 March 2011, assuming the beneficial claims and elections identified in (i) above are made.**

(4 marks)

(Total: 30 marks)

- 3** (a) Olivia purchased a house as her principal private residence on 1 April 1985 for £50,000 and sold it on 31 August 2010 for £180,000. An extension had been added in July 1987 costing £8,000.

From 1 January 1993 until 30 April 1996 one half of the house had been let for residential purposes. On 1 May 1996 Olivia went to live with her daughter and let the whole of the house for residential purposes until it was sold.

Required:

Calculate Olivia's chargeable gain for 2010/11. (5 marks)

- (b) In September 1988 Fred purchased a flat, not his principal private residence, for £50,000. In May 1991, when its value was £120,000 he gave the flat to his wife Freda. In May 2010 Freda sold the flat for £170,000. Fred and Freda were living together throughout the period. Both are higher rate taxpayers.

The flat has never been used for business purposes.

Required:

Calculate the amount of any chargeable gains arising on these transactions and any capital gains tax payable assuming Fred and Freda have no other capital gains in 2010/11. (3 marks)

- (c) In February 1999 Anne bought a diamond bracelet for £30,000. It was stolen in July 2010 and the insurance company paid £35,000 in compensation. In October 2010 Anne purchased a replacement bracelet out of the proceeds costing £37,000.

Required:

Calculate the chargeable gain for the year 2010/11 on the original bracelet and the base cost for capital gains tax purposes of the replacement bracelet assuming that Anne makes all available elections in respect of the transactions. (3 marks)

- (d) Gamma Ltd is a small unquoted trading company. Kevin purchased a 20% shareholding in Gamma Ltd for £48,000 in June 2007, when he went to work for the company as its finance director.

In February 2011 he left the company and sold his shares for £132,000. Kevin has made no other disposals in 2010/11 and has taxable income of £25,000.

Required:

Calculate Kevin's capital gains tax payable for 2010/11, assuming all beneficial reliefs are claimed, and state the due date of payment of this liability.

(4 marks)

(Total: 15 marks)

4 Martin Soell, a widower aged 47, died on 13 February 2011. His wife made no gifts during her lifetime and left her entire estate to Martin when she died.

When Martin died he owned the following net assets:

- (1) 30% of the £1 ordinary shares in Diamonds Ltd, an unquoted investment company, valued at £71,800. He used to own 40% of the shares but gave a 10% interest to his son on 10 June 2009. The value of the gift of shares before exemptions was £140,140.
- (2) His main residence valued at £260,000.
- (3) An investment property in Cornwall, valued in March 2011 at £165,000. At March 2011, there is an outstanding mortgage of £65,000 on the property.
- (4) On 23 March 2011, other net assets are valued for IHT purposes at £640,000. This figure is before taking account of the outstanding personal tax liabilities owed by Martin of £6,250, his funeral expenses of £2,150 and executor's expenses of £1,130.

Apart from the gifts of shares in Diamonds Ltd made to his son, Martin made the following cash gifts during his lifetime:

<i>Date</i>	<i>To</i>	<i>Amount</i>
		£
18.2.2005	Son	136,000
10.5.2005	Son	147,000
1.2.2006	Son	108,000
3.2.2007	Trust fund for grandchildren	221,000

The 10 May 2005 gift was made on the occasion of his son's marriage.

Under the terms of his will, Martin left £315,000 in cash to his niece with the residue of his estate to his son.

Required:

Explain the inheritance tax implications resulting from Martin's lifetime gifts and death on 13 February 2011.

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

The nil rate bands in earlier years were as follows:

2004/05	£263,000
2005/06	£275,000
2006/07	£285,000
2009/10	£325,000

(15 marks)

- 5 (a) You are provided with the following information relating to Octavius for the quarter ended 31 March 2011:

- (1) The VAT-exclusive management accounts:

	£	£
Sales		16,500
Less: Sales returns		(1,100)
		<hr/>
		15,400
Purchases	9,600	
Less: Purchases returns	(300)	
	<hr/>	
	9,300	
Impaired debts written off	1,500	
Other expenses	2,400	
	<hr/>	
		(13,200)
		<hr/>
Profit		2,200
		<hr/>

- (2) The sales and other expenses are all standard rated for VAT.
 (3) The purchases are all deductible for VAT.
 (4) The sales and purchases returns are all evidenced by credit notes issued and received.
 (5) The impaired debts were written off in March 2011. Payment for the original sales was due by December 2010.
 (6) A sales invoice for £3,000 excluding VAT had been omitted in error from the VAT return for the quarter to 31 December 2010.
 (7) Included in the expenses figure is the cost of both business and private petrol for Octavius's car which had CO₂ emissions of 200 g/km. The quarterly car fuel charge (VAT inclusive) is £411.
 (8) Octavius has always submitted returns and paid VAT on time.

Required:

- (i) **Complete the VAT account for the three-month period ended 31 March 2011, showing how much VAT is payable.**
The 'cash accounting' scheme is not being used.
Assume that the rate of VAT is 20% throughout. (6 marks)
- (ii) **State when is the VAT for the three-month period ended 31 March 2011 is payable. (1 mark)**
- (iii) **Explain the consequences if the VAT return for the quarter ended 31 March 2011 is submitted on 5 June 2011 and the VAT payment is made on the same date. (3 marks)**

- (b) A sample of the new sales invoice that Octavius is going to issue to its customers is as follows:

SALES INVOICE		
Octavius 456 The Low Street Birmingham B92 8TY	Customer: Address:	ABC Ltd 199 The High Road London WC2 1VX
Telephone 0121 546 7896		
Invoice Date and Tax Point: 1 April 2011		
Item Description	Quantity	Price
		£
Product RVY	5	120.00
Product YHJ	2	150.00
		270.00
Total Amount Payable (Including VAT)		270.00
Head Office: 456 The Low Street, Birmingham, B92 8TY		

Octavius pays for all of its inputs one month after receiving the purchase invoice. However, many customers are not paying Octavius until four months after the date of the sales invoice. In addition, several customers have recently defaulted on the payment of their debts.

In order to encourage more prompt payment, Octavius is considering offering all of its customers a 5% discount if they pay within one month of the date of the sales invoice. No discount is currently offered.

- (i) State what alterations Octavius will have to make to its new sales invoices in order for them to be valid for VAT purposes. (3 marks)
- (ii) Explain the VAT implications of Octavius offering all of its customers a 5% discount for prompt payment. (2 marks)

(Total: 15 marks)