Applied Skills

Taxation – United Kingdom (TX – UK)

March/June 2019 – Sample Questions

TX UK ACCA

Time allowed: 3 hours 15 minutes

This question paper is divided into three sections:

Section A – ALL 15 questions are compulsory and MUST be attempted

Section B – ALL 15 questions are compulsory and MUST be attempted

Section C – ALL THREE questions are compulsory and MUST be attempted

Tax rates and allowances are printed on pages 2–5.

Do NOT open this question paper until instructed by the supervisor.

Do NOT record any of your answers on the question paper.

This question paper must not be removed from the examination hall.

TX – UK

Think Ahead ACCA

The Association of Chartered Certified Accountants

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 in Section C.

Tax rates and allowances

The following tax rates and allowances are to be used in answering the questions.

Income tax

		Normal rates	Dividend rates
Basic rate	£1 – £34,500	20%	7·5%
Higher rate	£34,501 – £150,000	40%	32·5%
Additional rate	£150,001 and over	45%	38·1%

Savings income nil rate band – Basic rate taxpayers	£1,000
– Higher rate taxpayers	£500
Dividend nil rate band	£2,000

A starting rate of 0% applies to savings income where it falls within the first £5,000 of taxable income.

Personal allowance

Personal allowance	£11,850
Transferable amount	£1,190
Income limit	£100,000

Where adjusted net income is £123,700 or more, the personal allowance is reduced to zero.

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

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 relevant 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:

50 grams per kilometre or less	13%
51 grams to 75 grams per kilometre	16%
76 grams to 94 grams per kilometre	19%
95 grams per kilometre	20%

Car fuel benefit

The base figure for calculating the car fuel benefit is £23,400.

Individual savings accounts (ISAs)

The overall investment limit is £20,000.

Property income

Basic rate restriction applies to 50% of finance costs relating to residential properties.

Pension scheme limit

Annual allowance	£40,000
Minimum allowance	£10,000
Income limit	£150,000

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

Approved mileage allowances: cars

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

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 50 grams per kilometre	100%
CO_2 emissions between 51 and 110 grams per kilometre	18%
CO_2 emissions over 110 grams per kilometre	8%

Annual investment allowance

Rate of allowance	100%
Expenditure limit	£200,000

Cash basis accounting

Revenue limit	£150,000

Cap on income tax reliefs

Unless otherwise restricted, reliefs are capped at the higher of £50,000 or 25% of income.

Corporation tax

Rate of tax – Financial year 2018	19%
– Financial year 2017	19%
– Financial year 2016	20%
Profit threshold	£1,500,000

Value added tax (VAT)

Standard rate	20%
Registration limit	£85,000
Deregistration limit	£83,000

Inheritance tax: tax rates

Nil rate band	£325,000
Residence nil rate band	£125,000
Rates of tax on excess – Lifetime rate	20%
– Death rate	40%

Inheritance tax: 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%

Capital gains tax

	Normal rates	**Residential property**
Lower rate	10%	18%
Higher rate	20%	28%

Annual exempt amount	£11,700
Entrepreneurs' relief and investors' relief:	
– Lifetime limit	£10,000,000
– Rate of tax	10%

National insurance contributions

Class 1	Employee	£1 – £8,424 per year	Nil
		£8,425 – £46,350 per year	12%
		£46,351 and above per year	2%
Class 1	Employer	£1 – £8,424 per year	Nil
		£8,425 and above per year	13·8%
		Employment allowance	£3,000
Class 1A			13·8%
Class 2		£2·95 per week	
		Small profits threshold	£6,205
Class 4		£1 – £8,424 per year	Nil
		£8,425 – £46,350 per year	9%
		£46,351 and above per year	2%

Rates of interest (assumed)

Official rate of interest	2·50%
Rate of interest on underpaid tax	3·00%
Rate of interest on overpaid tax	0·50%

Standard penalties for errors

Taxpayer behaviour	Maximum penalty	Minimum penalty – unprompted disclosure	Minimum penalty – prompted disclosure
Deliberate and concealed	100%	30%	50%
Deliberate but not concealed	70%	20%	35%
Careless	30%	0%	15%

Section B – ALL 15 questions are compulsory and MUST be attempted

Please use the grid provided on page two of the Candidate Answer Booklet to record your answers to each multiple choice question. Do not write out the answers to the MCQs on the lined pages of the answer booklet.

Each question is worth 2 marks.

The following scenario relates to questions 16–20.

You should assume that the tax allowances for the tax year 2018–19 applied in previous tax years.

Hali and Goma are a married couple.

Capital losses brought forward
Hali had capital losses of £39,300 for the tax year 2016–17. He had chargeable gains of £15,700 for the tax year 2017–18.

Goma had capital losses of £9,100 and chargeable gains of £6,900 for the tax year 2017–18. She did not have any capital losses for the tax year 2016–17.

Ordinary shares in Lima Ltd
On 24 July 2018, Hali sold 5,000 £1 ordinary shares in Lima Ltd, for £4·95 per share. Lima Ltd's shares have recently been selling for £5·30 per share, but Hali sold them at the lower price because he needed a quick sale.

Goma, Hali's wife, had originally subscribed for 30,000 ordinary shares in Lima Ltd at their par value of £1 per share on 28 July 2007. On 18 August 2016, she gave 8,000 ordinary shares to Hali. On that date, the market value for 8,000 shares was £23,200.

Hali and Goma will both dispose of their remaining shareholdings in Lima Ltd during the tax year 2019–20. However, they are unsure as to whether these disposals will qualify for entrepreneurs' relief.

Antique table
On 11 October 2018, an antique table owned by Hali was destroyed in a fire. The table had been purchased on 3 June 2009 for £44,000. Hali received insurance proceeds of £62,000 on 12 December 2018, and on 6 January 2019, he purchased a replacement antique table for £63,600. Hali will make a claim to roll over the gain arising from the receipt of the insurance proceeds.

Disposals by Goma during the tax year 2018–19
Goma disposed of the following assets during the tax year 2018–19, all of which resulted in gains:

(1) Qualifying corporate bonds sold for £38,300
(2) A motor car (suitable for private use) sold for £11,600
(3) An antique vase sold for £6,200
(4) A copyright (with an unexpired life of eight years when purchased) sold for £5,400
(5) Quoted shares held within an individual savings account (ISA) sold for £24,700

16 What amount of unused capital losses do Hali and Goma have brought forward to the tax year 2018–19?

	Hali	Goma
A	£23,600	£9,100
B	£23,600	£2,200
C	£35,300	£9,100
D	£35,300	£2,200

17 What cost figure and what value per share (disposal value) will be used in calculating the chargeable gain on Hali's sale of 5,000 ordinary shares in Lima Ltd?

	Cost figure	Value per share
A	£5,000	£4·95
B	£14,500	£4·95
C	£14,500	£5·30
D	£5,000	£5·30

18 In deciding whether Hali and Goma's future disposals of their shareholdings in Lima Ltd will qualify for entrepreneurs' relief, which one of the following statements is correct?

A Hali and Goma must be directors of Lima Ltd
B Lima Ltd must be a trading company
C Hali and Goma must have shareholdings of at least 10% each in Lima Ltd
D The qualifying conditions must be met for a period of three years prior to the date of disposal

19 What is the base cost of Hali's replacement antique table for capital gains tax (CGT) purposes?

A £62,000
B £63,600
C £45,600
D £44,000

20 How many of the five assets disposed of by Goma during the tax year 2018–19 are exempt assets for the purposes of capital gains tax (CGT)?

A Three
B Five
C Two
D Four

The following scenario relates to questions 21–25.

You should assume that today's date is 25 April 2019.

Thidar commenced trading as a builder on 1 January 2018. She voluntarily registered for value added tax (VAT) on 1 January 2018.

Sales

Thidar's sales for the first 15 months of trading have been:

Month	Standard rated	Zero rated	Month	Standard rated	Zero rated
	£	£		£	£
1	3,400	0	9	8,800	6,300
2	0	1,900	10	2,900	7,300
3	5,700	2,100	11	0	0
4	6,800	0	12	0	2,600
5	9,500	1,200	13	2,800	900
6	7,900	2,200	14	3,200	1,700
7	0	3,700	15	22,200	3,600
8	12,100	0			

Pre-registration expenditure

Thidar paid for the following standard rated services prior to registering for VAT on 1 January 2018:

Date	Cost of service	Description
	£	
10 June 2017	1,800	Advertisement for the building business
8 December 2017	300	Advertisement for the building business

Both figures are exclusive of VAT. Thidar paid for the advertisement of £300 by cash, and she does not have any evidence of this transaction (such as a VAT invoice).

VAT return for the quarter ended 30 September 2018

Thidar's VAT return for the quarter ended 30 September 2018 was filed by the submission deadline of 7 November 2018 and the related VAT liability was paid on time.

However, on 15 February 2019, Thidar discovered that the amount of VAT paid was understated by £1,200 as a result of incorrectly treating a standard rated sale as zero rated. Given that the underpayment does not exceed £10,000, Thidar is permitted to correct this error on her VAT return for the quarter ended 31 March 2019, and this is what she will do. Thidar will file this VAT return by the submission deadline of 7 May 2019 and pay the related VAT liability (including the underpaid £1,200) on time.

VAT return for the quarter ended 31 March 2019

Thidar is currently completing her VAT return for the quarter ended 31 March 2019 and is unsure as to how much input VAT is non-deductible in respect of two items:

(1) During the quarter ended 31 March 2019, Thidar spent £800 on entertaining UK customers.

(2) During the quarter ended 31 March 2019, Thidar leased a motor car at a cost of £700. The motor car is used by Thidar and 75% of the mileage is for private journeys.

Both figures are exclusive of VAT.

21 In which month did Thidar exceed the VAT threshold for compulsory registration?

A Month 14
B Month 15
C Month 13
D Not yet exceeded

22 What amount of pre-registration input VAT was Thidar able to recover in respect of expenditure incurred prior to registering for VAT on 1 January 2018?

A £360
B £60
C £420
D £0

23 Within what period must Thidar issue a VAT invoice after making a standard rated supply, and for how long must these VAT invoices then normally be retained by Thidar?

	VAT invoices	Retention
A	Within 14 days	Four years
B	Within 30 days	Six years
C	Within 30 days	Four years
D	Within 14 days	Six years

24 Why will VAT default (or penalty) interest not be charged on Thidar's underpayment of VAT of £1,200 for the quarter ended 30 September 2018?

A Because Thidar corrected the error within 12 months
B Because the error was not deliberate
C Because separate disclosure of the VAT underpayment was not required
D Because Thidar paid the underpayment of £1,200 by the submission deadline of 7 May 2019

25 For the quarter ended 31 March 2019, what is the amount of non-deductible input VAT in respect of entertaining UK customers and the leasing cost of the motor car?

	Entertaining UK customers	Leasing cost
A	£0	£105
B	£160	£105
C	£160	£70
D	£0	£70

The following scenario relates to questions 26–30.

You should assume that today's date is 1 March 2019.

Lebna and Lulu were a married couple, but, unfortunately, Lulu died on 24 January 2015.

Lulu

Lulu left an estate valued at £210,000 for inheritance tax (IHT) purposes. The estate did not include a main residence. Under the terms of her will, Lulu left a specific legacy of £40,000 to her brother, with the residue of the estate to her husband, Lebna. Lulu had made the following lifetime transfers:

Date	Type of transfer	Amount £
13 February 2007	Chargeable lifetime transfer	50,000
21 June 2013	Potentially exempt transfer	80,000

Both of these transfers are after taking account of all available exemptions.

The nil rate band for the tax year 2014–15 is £325,000.

Lebna's chargeable estate

Lebna has a chargeable estate valued at £980,000. His estate includes a main residence valued at £340,000 on which there is an outstanding interest-only mortgage of £152,000.

Under the terms of his will, Lebna has left his entire estate to his son.

Gift to son on 22 February 2014

On 22 February 2014, Lebna made a gift of 60,000 £1 ordinary shares in Blean Ltd, an unquoted investment company, to his son. Before the transfer, Lebna owned all of Blean Ltd's share capital of 100,000 ordinary shares. The market value of Blean Ltd's ordinary shares on 22 February 2014 was as follows:

Holding	Market value per share
40%	£4·20
60%	£6·30
100%	£7·10

Lebna had not made any previous lifetime gifts.

Gifts to friends during October 2018

Lebna made cash gifts of £85, £225, £190 and £490 to various friends during October 2018. The gifts of £85 and £190 were to the same friend.

26 If Lebna were to die today, 1 March 2019, how much of Lulu's nil rate band will the personal representatives of Lebna's estate be able to claim when calculating the IHT payable on his chargeable estate?

A £155,000
B £205,000
C £35,000
D £285,000

27 If Lebna were to die today, 1 March 2019, what is the total amount of residence nil rate band which will be available when calculating the IHT payable on his chargeable estate?

A £125,000
B £250,000
C £340,000
D £188,000

28 What is the amount of the potentially exempt transfer which Lebna has made to his son on 22 February 2014 (the gift of 60,000 shares in Blean Ltd) after deducting any available exemptions?

A £542,000
B £536,000
C £372,000
D £378,000

29 If Lebna were to die today, 1 March 2019, what taper relief percentage reduction would be available when calculating the IHT payable on the potentially exempt transfer which he made to his son on 22 February 2014 (the gift of 60,000 shares in Blean Ltd), and when would this IHT be due?

	Taper relief reduction	Due date
A	60%	30 September 2019
B	60%	1 September 2019
C	40%	1 September 2019
D	40%	30 September 2019

30 What amount of the cash gifts made by Lebna to his friends during October 2018 is covered by the small gifts exemption?

A £500
B £990
C £225
D £275

(30 marks)

Section C – ALL THREE questions are compulsory and MUST be attempted

Please write your answers to all parts of these questions on the lined pages within the Candidate Answer Booklet.

31 You should assume that today's date is 15 February 2019.

You are a trainee chartered certified accountant dealing with the tax affairs of Dembe and her husband Kato.

Personal pension contribution
Dembe is self-employed and her trading profit for the year ended 31 December 2018 is £130,000. She will not have any other income or outgoings for the tax year 2018–19.

Dembe is planning to make a personal pension contribution of £32,000 (net) before 5 April 2019, and would like to know the amount of income tax and national insurance contributions (NICs) which she will save as a result of making the pension contribution.

Sale of residential property
During March 2019, Dembe is going to sell a residential property and this will result in a chargeable gain of £67,000 if she makes the disposal.

Dembe wants to know whether it would be beneficial to transfer the property to Kato, her husband, as a no gain/no loss transfer prior to it being sold during March 2019. The transfer from Dembe to Kato will cost £2,000 in additional legal fees, and this cost will reduce the chargeable gain to £65,000 if the disposal is made by Kato.

Dembe has already made other disposals during the tax year 2018–19 which have utilised her annual exempt amount. Kato, however, has not yet made any disposals.

Kato's taxable income for the tax year 2018–19 is £18,150.

Inheritance tax
Dembe, who knows nothing about inheritance tax (IHT), is concerned about the amount of IHT which will be payable when she and Kato die. The couple's combined chargeable estate is valued at £880,000 for IHT purposes. The estate includes a main residence valued at £360,000.

Under the terms of their wills, Dembe and Kato have initially left their entire estates to each other. Then when the second of them dies, the total estate of £880,000 will be left to the couple's children.

The couple are not sure whether to change the terms of their wills so that assets worth £325,000 are left to their children when the first of them dies.

Neither Dembe nor Kato have made any lifetime gifts.

Required:

(a) Calculate the reduction in Dembe's income tax liability and NICs for the tax year 2018–19 if she makes the personal pension contribution of £32,000 (net) before 5 April 2019.

Note: You are not expected to prepare full tax computations. (4 marks)

(b) Calculate the couple's overall saving for the tax year 2018–19, after taking account of the additional legal fees of £2,000, if the residential property is transferred to Kato and sold by him, rather than the property being sold by Dembe. (3 marks)

(c) Calculate the amount of IHT payable, if any, were Dembe and Kato to both die in the near future, and explain whether or not it might be beneficial to leave assets worth £325,000 to their children when the first of them dies.

Note: You should assume that the IHT rates and thresholds remain unchanged. (3 marks)

(10 marks)

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Question 32 begins on page 14.

32 Up to and including the tax year 2016–17, Tonie was resident in the UK for tax purposes, spending more than 300 days in the UK each year. Tonie understands that for the tax year 2018–19, she will again automatically be treated as resident in the UK, but is unsure of her residence status for the tax year 2017–18. For this tax year, Tonie was neither automatically resident in the UK nor automatically not resident. Throughout the tax year 2017–18, Tonie was travelling around the world and did not stay in any one country for longer than 30 days, although she did spend a total of 50 days in the UK. Tonie has a house in the UK, but it was let out throughout the tax year 2017–18. She is single, has no children, and stayed with a friend on the 50 days which she spent in the UK. Tonie did not do any substantive work in the UK during the tax year 2017–18.

The following information is available for the tax year 2018–19:

Employment

On 6 April 2018, Tonie, who is a software developer, accepted a one-year contract to maintain websites for Droid plc. Droid plc treated the contract as one of employment, with the payments to Tonie being subject to PAYE. However, Tonie thought that, because she was working from home, her employment status should instead have been one of self-employment.

(1) For the term of the contract, from 6 April 2018 to 5 April 2019, Tonie was paid a fixed gross amount of £6,200 a month. During the term of the contract, Tonie was not permitted to work for any other clients. She was required to do the work personally, not being permitted to sub-contract the work to anyone else.

(2) During the term of the contract, Tonie worked from home, but had to attend weekly meetings at Droid plc's offices to receive instructions regarding the work to be performed during the following week. During the period 6 April 2018 to 5 April 2019, Tonie used her private motor car for business visits to Droid plc's clients. She drove 2,300 miles, for which Droid plc paid an allowance of 60 pence per mile.

(3) During the term of the contract, Tonie leased computer equipment at a cost of £180 a month. This was used 100% for business purposes.

Property income

(1) Tonie owns a freehold house which is let out (this is not a furnished holiday letting). The total amount of rent received during the tax year 2018–19 was £10,080.

(2) Tonie partly financed the purchase of the property with a repayment mortgage, paying mortgage interest of £4,200 during the tax year 2018–19.

(3) During May 2018, Tonie purchased a new washer-dryer for the property at a cost of £640. This was a replacement for an old washing machine which was scrapped, with nil proceeds. The cost of a similar washing machine would have been £380.

(4) During November 2018, Tonie purchased a new dishwasher for the property at a cost of £560. The property did not previously have a dishwasher.

(5) The other expenditure on the property for the tax year 2018–19 amounted to £1,110, and this is all allowable.

(6) During the tax year 2018–19, Tonie rented out one furnished room of her main residence. During the year, she received rent of £8,580 and incurred allowable expenditure of £870 in respect of the room. Tonie always uses the most favourable basis as regards the tax treatment of the furnished room.

Other income

(1) On 1 July 2018, Tonie inherited £100,000 (nominal value) of gilts paying interest at the rate of 3%. The inheritance was valued at £120,000. Interest is paid half-yearly on 30 June and 31 December based on the nominal value. Tonie sold the gilts on 30 November 2018 for £121,250 (including accrued interest).

(2) On 31 January 2019, Tonie received a premium bond prize of £100.

(3) On 31 March 2019, Tonie received interest of £520 on the maturity of savings certificates from NS&I (National Savings and Investments).

Required:

(a) Explain why Tonie was treated as not resident in the UK for the tax year 2017–18. (2 marks)

(b) List FOUR factors which are indicators of Tonie being treated as employed in relation to her contract with Droid plc rather than as self-employed.

Note: You should confine your answer to the information given in the question. (2 marks)

(c) On the basis that Tonie is treated as employed in relation to her contract with Droid plc, calculate her taxable income for the tax year 2018–19.

Note: You should indicate by the use of zero (0) any items which are not taxable or deductible. (11 marks)

(15 marks)

33 You are a trainee chartered certified accountant dealing with the tax affairs of three unrelated limited companies, Aoede Ltd, Bianca Ltd and Charon Ltd.

Aoede Ltd

Aoede Ltd commenced trading on 1 April 2017. The company's results are:

	Year ended 31 March 2018	Year ended 31 March 2019
	£	£
Trading profit/(loss)	(111,300)	67,800
Property business income/(loss)	(26,400)	23,400
Chargeable gains	5,800	16,200
Qualifying charitable donations	(6,000)	(6,600)

Aoede Ltd owns 100% of the ordinary share capital of Moon Ltd. Moon Ltd commenced trading on 1 April 2018 and for the year ended 31 March 2019 made a trading profit of £19,700.

Bianca Ltd

Bianca Ltd commenced trading on 1 April 2018. The company's tax adjusted trading profit based on the statement of profit or loss for the year ended 31 March 2019 is £256,300. This figure is **before** making any adjustments required for:

(1) Advertising expenditure of £5,800 incurred during January 2017 to promote Bianca Ltd's new business. This expenditure has not been deducted in calculating the profit of £256,300.

(2) Leasing costs of £9,300 which have been deducted in arriving at the profit of £256,300. The leasing costs relate to two motor cars which have been leased since 1 April 2018. The first motor car has CO_2 emissions of 105 grams per kilometre and is leased at an annual cost of £4,200. The second motor car has CO_2 emissions of 120 grams per kilometre and is leased at an annual cost of £5,100.

(3) Capital allowances.

On 1 April 2018, Bianca Ltd purchased four laptop computers at a discounted cost of £1,000 per laptop. The original cost of each laptop was £1,800, but Bianca Ltd was given a discount because they were damaged.

Bianca Ltd also purchased two second hand motor cars on 1 April 2018. Details are:

	Cost	CO_2 emission rate
	£	
Motor car [1]	12,400	35 grams per kilometre
Motor car [2]	13,900	120 grams per kilometre

Charon Ltd

During the year ended 31 March 2019, Charon Ltd disposed of two investment properties.

The first property was sold for £368,000 during January 2019. This property was purchased for £147,000 during October 1995, and was extended at a cost of £39,000 during June 2018.

The second property was sold for £167,000 during January 2019. This property was purchased for £172,000 during December 2017.

Indexation factors are:

October 1995 to December 2017	0·856
October 1995 to January 2019	0·896
December 2017 to January 2019	0·021
June 2018 to January 2019	0·012

Required:

(a) (i) On the basis that Aoede Ltd claims relief for its losses as early as possible, calculate the taxable total profits of Aoede Ltd for the years ended 31 March 2018 and 31 March 2019, and of Moon Ltd for the year ended 31 March 2019. (5 marks)

(ii) Explain which aspect of Aoede Ltd's loss relief claim made in part (i) is not beneficial for the company to make. (1 mark)

(b) Calculate Bianca Ltd's revised tax adjusted trading profit for the year ended 31 March 2019. (5 marks)

(c) Calculate Charon Ltd's chargeable gains and capital losses, if any, for the year ended 31 March 2019. (4 marks)

(15 marks)

End of Question Paper