Fundamentals Level – Skills Module

Taxation (United Kingdom)

Tuesday 2 December 2014

Time allowed
Reading and planning: 15 minutes
Writing: 3 hours

ALL FIVE questions are compulsory and MUST be attempted.
Rates of tax and tables are printed on pages 2–5.

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.

The Association of Chartered Certified Accountants

Paper F6 (UK)

ACCA

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.

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 – £32,010	20	10
Higher rate	£32,011 – £150,000	40	32·5
Additional rate	£150,001 and over	45	37·5

A starting rate of 10% applies to savings income where it falls within the first £2,790 of taxable income.

Personal allowance

Personal allowance	
Born on or after 6 April 1948	£9,440
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)	£26,100

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:

75 grams per kilometre or less	5%
76 grams to 94 grams per kilometre	10%
95 grams per kilometre	11%

Car fuel benefit

The base figure for calculating the car fuel benefit is £21,100.

Individual savings accounts (ISAs)

The overall investment limit is £11,520, of which £5,760 can be invested in a cash ISA.

Pension scheme limit

Annual allowance	£50,000

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	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 over 130 grams per kilometre	8
Annual investment allowance	
First £250,000 of expenditure (since 1 January 2013)	100

Cap on income tax reliefs

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

Corporation tax

Financial year	2011	2012	2013
Small profits rate	20%	20%	20%
Main rate	26%	24%	23%
Lower limit	£300,000	£300,000	£300,000
Upper limit	£1,500,000	£1,500,000	£1,500,000
Standard fraction	3/200	1/100	3/400

Marginal relief

Standard fraction x (U – A) x N/A

Value added tax (VAT)

Standard rate	20%
Registration limit	£79,000
Deregistration limit	£77,000

Inheritance tax: tax rates

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

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

Rates of tax – Lower rate	18%
– Higher rate	28%
Annual exempt amount	£10,900
Entrepreneurs' relief – Lifetime limit	£10,000,000
– Rate of tax	10%

National insurance contributions
(Not contracted out rates)

Class 1	Employee	£1 – £7,755 per year	Nil
		£7,756 – £41,450 per year	12·0%
		£41,451 and above per year	2·0%
Class 1	Employer	£1 – £7,696 per year	Nil
		£7,697 and above per year	13·8%
Class 1A			13·8%
Class 2		£2·70 per week	
		Small earnings exemption limit	£5,725
Class 4		£1 – £7,755 per year	Nil
		£7,756 – £41,450 per year	9·0%
		£41,451 and above per year	2·0%

Rates of interest (assumed)

Official rate of interest	4·0%
Rate of interest on underpaid tax	3·0%
Rate of interest on overpaid tax	0·5%

ALL FIVE questions are compulsory and MUST be attempted

1 **(a)** Alfred and Edward King are brothers. They are trying to calculate their balancing payments for the tax year 2013–14, and the following information is available:

Alfred King

(1) Alfred was born on 14 June 1953.

(2) He has been in partnership with Anne Royal and Mary Regal running a retail shop since 6 April 2004, but Mary resigned as a partner on 1 January 2014.

(3) The partnership's tax adjusted trading profit for the year ended 5 April 2014 is £228,000. This figure is **before** taking account of capital allowances.

(4) The tax written down value of the partnership's capital allowances main pool at 6 April 2013 was £10,000. The only capital expenditure during the year ended 5 April 2014 was the cost of £82,000 for refurbishing the second floor of the partnership's shop during January 2014. The cost was made up as follows:

	£
False ceiling	17,600
Display units	15,100
Tiled flooring	32,200
Moveable partition walls	17,100
	82,000

(5) The partners have always shared profits equally, and continued to do so after Mary resigned.

(6) During the tax year 2013–14, Alfred received dividends totalling £3,060, of which £720 were from a stocks and shares individual savings account (ISA). These were the actual cash amounts received.

(7) During the tax year 2013–14, Alfred made gift aid donations totalling £1,920 (net) to national charities.

(8) Alfred's payments on account of income tax and class 4 national insurance contributions in respect of the tax year 2013–14 totalled £20,200.

Edward King

(1) Edward was born on 29 October 1951.

(2) Edward is employed by Stately Ltd as a marketing director. During the tax year 2013–14, he was paid gross director's remuneration of £179,000.

(3) On 1 December 2013, Stately Ltd provided Edward with an interest-free loan of £87,000, which he used to purchase a holiday cottage.

(4) Stately Ltd has provided Edward with a home entertainment system for his personal use since 6 April 2010. The home entertainment system had been purchased by Stately Ltd on 6 April 2010 for £5,200. The company gave the home entertainment system to Edward on 6 April 2013 for no charge, although its market value at that time was £2,200.

(5) During the tax year 2013–14, Edward contributed 4% of his gross director's remuneration of £179,000 into Stately Ltd's HM Revenue and Customs' registered occupational pension scheme. The company contributed a further 6% on his behalf.

(6) During the tax year 2013–14, Edward donated £200 (gross) per month to charity under the payroll deduction scheme.

(7) During the tax year 2013–14, Edward used his private motor car for business purposes. He drove 12,000 miles in the performance of his duties for Stately Ltd, for which the company paid an allowance of 35 pence per mile.

(8) On 1 January 2014, Edward paid a professional subscription of £240 to the Guild of Marketing, an HM Revenue and Customs' approved professional body.

(9) For the tax year 2013–14, Stately Ltd deducted a total of £62,600 in PAYE from Edward's earnings.

Required:

Calculate Alfred and Edward King's respective balancing payments for the tax year 2013–14.

Notes:

1. You should take account of class 4 national insurance contributions when calculating the balancing payment for Alfred King.
2. The following mark allocation is provided as guidance for this requirement:

   Alfred (12·5 marks)
   Edward (10·5 marks)

(23 marks)

(b) For the tax year 2013–14, Alfred wants to file his self-assessment tax return online, whilst Edward wants to file a paper tax return and have HM Revenue and Customs prepare a self-assessment on his behalf.

Required:

(i) Advise Alfred and Edward King of the latest dates by which their respective self-assessment tax returns for the tax year 2013–14 should be filed given their stated preferences. (2 marks)

(ii) Advise Alfred and Edward King as to how long they must retain the records used in preparing their respective tax returns for the tax year 2013–14.

Note: You should ignore the possibility of HM Revenue and Customs carrying out a compliance check.

(2 marks)

(c) The partnership of Alfred King and Anne Royal is planning to replace Mary Regal by employing either one full-time employee or two part-time employees. A full-time employee would be paid a gross annual salary of £22,000, whilst the part-time employees would each be paid gross annual salaries of £11,450. Alfred would prefer to employ two part-time employees, but is concerned that this will be more expensive.

Required:

Explain to Alfred King why employing two part-time employees will not be any more expensive than employing one full-time employee.

Note: You should include calculations to support your explanation, and should confine your answer to the information given in this part of the question. (3 marks)

(30 marks)

2 (a) You are a trainee Chartered Certified Accountant, and your firm has recently completed its audit of E-Commerce plc's financial statements for the year ended 31 March 2014. The company runs an internet-based retail business.

E-Commerce plc prepared its own corporation tax computations for the year ended 31 March 2014, and your colleague has completed your firm's tax audit of these figures. E-Commerce plc's original corporation tax computation, along with references to your colleague's queries, is as follows:

E-Commerce plc – Corporation tax computation for the year ended 31 March 2014

	Query	£
Operating profit	1	2,102,300
Deduction for lease premium	2	(14,400)
Capital allowances	3	(209,200)
Trading profit		1,878,700
Property business profit	4	156,700
Loan interest receivable	5	42,400
Taxable total profits		2,077,800
Corporation tax (2,077,800 at 23%)		477,894

Your colleague has raised some queries in regard to E-Commerce plc's corporation tax computation. Apart from any corrections arising from your colleague's queries, the corporation tax computation prepared by E-Commerce plc does not contain any errors.

Query 1 – Legal fees

E-Commerce plc has treated all of the company's legal expenditure as allowable when calculating its operating profit. However, legal expenses include the following:

(i) Legal fees of £80,200 in connection with an issue of £1 preference shares.

(ii) Legal fees of £92,800 in connection with the issue of loan notes. The loan was used to finance the company's trading activities.

(iii) Legal fees of £14,900 in connection with the renewal of a 99-year lease of property.

(iv) Legal fees of £4,700 in connection with an action brought against a supplier for breach of contract.

(v) Legal fees of £8,800 in connection with the registration of trade marks.

Query 2 – Deduction for lease premium

The amount assessed on the landlord has been correctly calculated, but the life of the lease should be 15 years and not the 12 years used by E-Commerce plc. The lease commenced on 1 April 2013.

Query 3 – Capital allowances

There are two issues here:

(1) E-Commerce plc purchased four motor cars during the year ended 31 March 2014, and all four motor cars have been included in the plant and machinery main pool. Details are as follows:

	Cost £	CO_2 emission rate
Motor car [1]	20,300	122 grams per kilometre
Motor car [2]	24,900	114 grams per kilometre
Motor car [3]	62,100	245 grams per kilometre
Motor car [4]	19,800	87 grams per kilometre

(2) Four years ago, E-Commerce plc purchased computer equipment on which a short-life asset election has been made. For the year ended 31 March 2014, the writing down allowance claimed on this equipment was £1,512, calculated at the rate of 18%. However, the computer equipment was actually scrapped, with nil proceeds, on 10 December 2013.

Query 4 – Property business profit

There are two issues here:

(1) E-Commerce plc has claimed a deduction for repairs of £95,300 in respect of a warehouse which was purchased on 21 May 2013. The warehouse was purchased in a dilapidated state, and could not be let until the repairs were carried out. This fact was represented by a reduced purchase price.

(2) E-Commerce plc did not receive the rent due of £16,200 in respect of this warehouse for the quarter ended 31 May 2014 until 1 April 2014. None of this amount has been taken into account in calculating the property business profit for the year ended 31 March 2014.

Query 5 – Loan interest receivable

The accrual at 31 March 2014 has been calculated at £4,800, but because of falling interest rates the accrual should actually be £3,500.

Other information

For the year ended 31 March 2013, E-Commerce plc had augmented profits of £1,360,000, and has forecast that its augmented profits for the year ended 31 March 2015 will exceed £2,000,000.

E-Commerce plc does not have any associated companies.

Required:

(i) Prepare a revised version of E-Commerce plc's corporation tax computation for the year ended 31 March 2014 after making any necessary corrections arising from your colleague's queries.

Note: Your calculations should commence with the operating profit figure of £2,102,300, and you should indicate by the use of zero (0) any items referred to in queries (1) to (5) which do not require adjustment. (12 marks)

(ii) Explain why E-Commerce plc will not have been required to make quarterly instalment payments in respect of its corporation tax liability for the year ended 31 March 2014, but will have to do so for the year ended 31 March 2015. (3 marks)

(b) For the previous three value added tax (VAT) quarters, E-Commerce plc has been late in submitting its VAT returns and in paying the related VAT liabilities. The company is therefore currently serving a default surcharge period.

As part of your firm's tax audit for the year ended 31 March 2014, you have discovered that E-Commerce plc has been careless in incorrectly treating the supply of standard rated services received from VAT registered businesses situated elsewhere within the European Union. This careless incorrect treatment has resulted in an underpayment of VAT to HM Revenue and Customs of £8,200 for the year ended 31 March 2014.

Required:

(i) Advise E-Commerce plc of the default surcharge implications if during the current default surcharge period it is late in paying a further VAT liability, and what the company will need to do in order to revert to a clean default surcharge record. (3 marks)

(ii) Explain when and how a UK VAT registered business should account for VAT in respect of the supply of services received from VAT registered businesses situated elsewhere within the European Union. (3 marks)

(iii) Explain why E-Commerce plc will be permitted to disclose the underpayment of VAT of £8,200 by entering this amount on its next VAT return, and state whether or not default interest will be due. (2 marks)

(iv) Advise E-Commerce plc as to the maximum amount of penalty which is likely to be charged by HM Revenue and Customs in respect of the underpayment of VAT of £8,200, and by how much this penalty would be reduced as a result of the company's unprompted disclosure. (2 marks)

(25 marks)

3 You should assume that today's date is 15 December 2013.

Patrick and Emily Grant are a married couple. They have both always been resident in the United Kingdom (UK), being in the UK for more than 300 days each tax year up to and including the tax year 2012–13. However, following Patrick's retirement, the couple decided to move overseas, purchasing an overseas property on 6 April 2013.

Patrick and Emily still have a house in the UK, and will stay there on the 105 days which they spend in the UK during the tax year 2013–14. Neither Patrick nor Emily works full-time, and neither of them will do any substantive work in the UK during the tax year 2013–14.

For the tax year 2013–14, Patrick will have taxable income of £7,200, and Emily will have taxable income of £46,400. During May 2013, Emily disposed of an investment, and the resultant chargeable gain fully utilised her annual exempt amount for the tax year 2013–14.

Patrick and Emily urgently need to raise £80,000 in order to renovate their overseas property, and have three alternative assets which can be sold. They would like to sell the asset which will provide them with the highest net of tax proceeds. The three alternatives are as follows:

Alternative 1 – Land

Patrick owns eight acres of land, and a neighbouring farmer has offered to buy this land for £92,000. Patrick originally purchased 14 acres of land on 2 May 2001 for £108,600 and he sold six acres of the land on 27 September 2006 for £37,800. The market value of the unsold eight acres of land as at 27 September 2006 was £52,700. The land has never been used for business purposes.

Alternative 2 – Unquoted shares

Emily owns 8,000 £1 ordinary shares in Shore Ltd, an unquoted trading company with a share capital of 100,000 £1 ordinary shares. Shore Ltd's shares have recently been selling for £13·00 per share, but Emily will have to sell at £11·50 per share given that she needs a quick sale. The sale will be to an unconnected person. Emily subscribed for her shares in Shore Ltd at par on 1 June 2005, and she has been a director of the company since that date.

Alternative 3 – Quoted shares

Patrick and Emily jointly own 32,000 £1 ordinary shares in Beach plc, a quoted trading company. The shares are currently quoted on the Stock Exchange at £2·88. Patrick and Emily originally purchased 54,000 shares in Beach plc on 23 May 2003 for £75,600, but they had sold 22,000 shares on 17 November 2011 for £44,440.

The shareholding is less than 1% of Beach plc's issued share capital, and neither Patrick nor Emily has ever been an employee or a director of the company.

Required:

(a) Explain why Patrick and Emily Grant will both be treated as resident in the United Kingdom for the tax year 2013–14. (3 marks)

(b) Assuming that the disposal is made during January 2014, advise Patrick and Emily Grant as to which of the three alternative disposals will result in the highest net proceeds after taking account of capital gains tax.

Notes:

1. **For each of the three alternative disposals, your answer should be supported by a calculation of the capital gains tax due for the tax year 2013–14.**
2. **You are not expected to consider any possible tax planning.** (12 marks)

(15 marks)

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Question 4 begins on page 12.

4 **(a)** Accra Ltd runs a business selling African vegetables to restaurants. The company's trading profit for the year ended 31 March 2014 was £244,000.

On 1 April 2013, Accra Ltd set up a 100% owned subsidiary company, Banjul Ltd, to run a retail shop selling African food products. Banjul Ltd's trading profit for the year ended 31 March 2014 was £36,000.

Neither company has any other income or any other associated companies.

Required:

Calculate the overall corporation tax saving for the year ended 31 March 2014 if, rather than setting up Banjul Ltd as a subsidiary company, the retail shop had instead been run by Accra Ltd as part of its existing business.

Note: You should assume that the trading profits of £244,000 and £36,000 would have remained the same.
(4 marks)

(b) Cairo Ltd runs a business promoting African music. The company's taxable total profits for the year ended 31 March 2014 were £87,000.

Cairo Ltd has owned 100% of the ordinary share capital of Dakar Ltd since it began trading on 1 December 2012, running a music recording studio. Dakar Ltd's results for the year ended 30 November 2013 and for the four-month period ended 31 March 2014 are as follows:

	Year ended 30 November 2013	Period ended 31 March 2014
	£	£
Trading loss	(54,600)	(27,900)
Capital loss	0	(16,200)
Qualifying charitable donations	0	(3,600)

For the year ended 31 March 2015, both Cairo Ltd and Dakar Ltd will pay corporation tax at the small profits rate of 20% on their trading profits.

Required:

(i) **Advise Cairo Ltd as to the maximum amount of group relief which can be claimed against its taxable total profits of £87,000 for the year ended 31 March 2014.**

Note: You are not expected to calculate Cairo Ltd's corporation tax liability. (4 marks)

(ii) **Explain why it is probably beneficial for Dakar Ltd to group relieve its losses to Cairo Ltd rather than offsetting them against its own profits.** (2 marks)

(c) Kigali Ltd is the holding company for a group of companies. The group structure is as follows:

Kigali Ltd
|
80%
|
Lome Ltd
|
100%
|
Maputo Ltd
|
70%
|
Niamey Ltd

On 31 May 2013, Kigali Ltd sold a freehold office building for £310,000. The office building had been purchased on 2 October 1998 for £120,000, and during October 1998 it was extended at a cost of £42,000. The indexation factor from October 1998 to May 2013 is 0·520.

Lome Ltd, Maputo Ltd and Niamey Ltd have all recently purchased, or are planning to purchase, freehold warehouses. The directors of Kigali Ltd understand that rollover relief is available within a chargeable gains group.

Required:

(i) State, giving reasons, whether Maputo Ltd and Niamey Ltd are included in a chargeable gains group with Kigali Ltd. (2 marks)

(ii) Calculate Kigali Ltd's chargeable gain in respect of the disposal of the freehold office building. (2 marks)

(iii) State the period during which reinvestment by a group company will have to take place in order to make a claim to roll over Kigali Ltd's chargeable gain. (1 mark)

(15 marks)

5 You should assume that today's date is 15 March 2014.

Tobias has recently inherited the residue of his aunt Mildred's estate. Mildred died on 8 December 2013, and her estate consisted of the following assets:

(1) A main residence valued at £660,000. This had an outstanding interest-only mortgage of £94,300.

(2) A portfolio of ordinary shares valued at £192,600.

(3) A motor car valued at £21,900.

On 8 December 2013, Mildred owed £9,400 in respect of credit card debts, and she had also verbally promised to pay the £4,600 medical costs of a friend. The cost of Mildred's funeral amounted to £5,800.

Under the terms of her will, Mildred made specific legacies totalling £25,000 to her friends, with the residue of her estate being inherited by Tobias. Mildred had not made any gifts during her lifetime.

Mildred's husband had died on 19 July 2006, and 40% of his inheritance tax nil rate band of £285,000 for the tax year 2006–07 was not used.

Tobias will use some of his inheritance for the following purposes:

Personal pension contribution

Tobias will make an additional personal pension contribution for the tax year 2013–14, having already made contributions of £10,000 during this tax year. He has been self-employed since 6 April 2011, and has been a member of a personal pension scheme from the tax year 2012–13 onwards. Tobias' trading profits and gross personal pension contributions since he commenced self-employment have been as follows:

Tax year	Trading profit	Pension contribution
	£	£
2011–12	32,000	0
2012–13	44,000	26,000
2013–14	78,000	10,000

Gift to daughter

Tobias will make a cash gift of £100,000 to his daughter when she gets married on 29 March 2014. He has not made any previous lifetime gifts.

Individual savings accounts (ISAs)

Tobias will invest the maximum possible amounts into individual savings accounts for the tax year 2013–14. He has already invested £2,400 into a cash individual savings account during this tax year, having previously invested £3,200 into a cash individual savings account during the tax year 2012–13.

Required:

(a) Calculate the amount of the inheritance which Tobias will have received (after tax) from his aunt Mildred's estate. (7 marks)

(b) Advise Tobias of the maximum amount of additional gross personal pension contribution which he is permitted to make for the tax year 2013–14, and how much of this maximum contribution will qualify for tax relief. (3 marks)

(c) Explain, with supporting calculations where necessary, the inheritance tax implications if Tobias makes a cash gift of £100,000 to his daughter when she gets married. (3 marks)

(d) Advise Tobias as to what options he has as regards making full use of his individual savings account limits for the tax year 2013–14. (2 marks)

(15 marks)

End of Question Paper