

Fundamentals Level – Skills Module

# Taxation (United Kingdom)

September/December 2017 – Sample Questions



**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

Rates of tax and tables are printed on pages 2–4.

**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.**

Think Ahead

**ACCA**

The Association of  
Chartered Certified  
Accountants

Paper F6 (UK)

## 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 – £32,000	20%	7.5%
Higher rate	£32,001 to £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			£5,000

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

### Personal allowance

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

### 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

### 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<sub>2</sub> emissions is 95 grams per kilometre.

The percentage rates applying to petrol cars with CO<sub>2</sub> emissions up to this level are:

50 grams per kilometre or less	7%
51 grams to 75 grams per kilometre	11%
76 grams to 94 grams per kilometre	15%
95 grams per kilometre	16%

### Car fuel benefit

The base figure for calculating the car fuel benefit is £22,200.

### Individual savings accounts (ISAs)

The overall investment limit is £15,240.

### Pension scheme limit

Annual allowance – 2014–15 to 2016–17	£40,000
– 2013–14	£50,000
Minimum allowance	£10,000
Income limit	£150,000

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

<b>Plant and machinery</b>	
Main pool	18%
Special rate pool	8%

#### Motor cars

New cars with CO <sub>2</sub> emissions up to 75 grams per kilometre	100%
CO <sub>2</sub> emissions between 76 and 130 grams per kilometre	18%
CO <sub>2</sub> emissions over 130 grams per kilometre	8%

#### Annual investment allowance

Rate of allowance	100%
Expenditure limit	£200,000

### 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	20%
Profit threshold	£1,500,000

### Value added tax (VAT)

Standard rate	20%
Registration limit	£83,000
Deregistration limit	£81,000

### Inheritance tax: tax rates

£1 – £325,000	Nil
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		£11,100
Entrepreneurs' relief – Lifetime limit		£10,000,000
– Rate of tax		10%

### National insurance contributions

Class 1	Employee	£1 – £8,060 per year	Nil
		£8,061 – £43,000 per year	12%
		£43,001 and above per year	2%
Class 1	Employer	£1 – £8,112 per year	Nil
		£8,113 and above per year	13.8%
		Employment allowance	£3,000
Class 1A			13.8%
Class 2		£2.80 per week	
		Small profits threshold	£5,965
Class 4		£1 – £8,060 per year	Nil
		£8,061 – £43,000 per year	9%
		£43,001 and above per year	2%

### Rates of interest (assumed)

Official rate of interest	3%
Rate of interest on underpaid tax	3%
Rate of interest on overpaid tax	0.50%

**This is a blank page.  
Section C begins on page 6.**

**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 March 2016.

You are a trainee chartered certified accountant dealing with the tax affairs of Gamila, who is the managing director of, and (currently) 100% shareholder in, Alimag Ltd.

For the year ended 5 April 2017, Alimag Ltd's taxable total profits, before taking account of director's remuneration, are forecast to be £180,000.

**Original basis of profit extraction**

Gamila originally intended to withdraw £125,000 of the profits as director's remuneration, and you have calculated that this approach would result in the following tax liabilities and national insurance contributions (NICs):

	£
<b>Alimag Ltd</b>	
Corporation tax for the year ended 5 April 2017	7,774
Class 1 employer NICs for the tax year 2016–17	16,131
<b>Gamila</b>	
Income tax for the tax year 2016–17	43,600
Class 1 employee NICs for the tax year 2016–17	5,833
	<hr/>
	73,338

**Revised basis of profit extraction**

After a meeting with Gamila, a more beneficial approach to withdrawing £125,000 of profits from Alimag Ltd has been agreed for the tax year 2016–17:

- (1) Gamila will withdraw gross director's remuneration of £25,000.
- (2) Gamila's husband, Magnus, will become a 25% shareholder in Alimag Ltd.
- (3) Alimag Ltd will then pay dividends of £75,000 to Gamila and £25,000 to Magnus.

Neither Gamila nor Magnus will have any other income for the tax year 2016–17.

**Required:**

**Calculate the overall saving of taxes and NICs for the tax year 2016–17 if the revised basis of profit extraction is used instead of the original basis of profit extraction.**

**Notes:**

- (1) You are expected to calculate the income tax payable by Gamila and Magnus, the class 1 NIC payable (if any) by Gamila, Magnus and Alimag Ltd, and the corporation tax liability of Alimag Ltd for the year ended 5 April 2017.
- (2) Alimag Ltd is not entitled to the NIC annual employment allowance.
- (3) You should assume that the rate of corporation tax remains unchanged.

**(10 marks)**

- 32** Up to and including the tax year 2014–15, Dill was always resident in the United Kingdom (UK), being in the UK for more than 300 days each tax year. She was also resident in the UK for the tax year 2016–17. However, during the tax year 2015–16, Dill was overseas for 305 days, spending just 60 days in the UK. Dill has a house in the UK and stayed there on the 60 days which she spent in the UK. She also has a house overseas. For the tax year 2015–16, Dill did not have any close family in the UK, did not do any work in the UK and was not treated as working full-time overseas.

On 6 April 2016, Dill returned to the UK and commenced employment with Herb plc as the IT manager. She also set up a small technology business which she ran on a self-employed basis, but this business failed and Dill ceased self-employment on 5 April 2017. The following information is available for the tax year 2016–17:

#### Employment

- (1) During the tax year 2016–17, Dill was paid a gross annual salary of £270,000.

- (2) In addition to her salary, Dill has been paid the following bonuses by Herb plc:

Amount £	Date of payment	Date of entitlement	In respect of the four-month period ended
16,200	31 December 2016	1 November 2016	31 July 2016
29,300	30 April 2017	1 March 2017	30 November 2016

- (3) Throughout the tax year 2016–17, Dill had the use of Herb plc's company gym which is only open to employees of the company. The cost to Herb plc of providing this benefit was £780.
- (4) Throughout the tax year 2016–17, Herb plc provided Dill with a home entertainment system for her personal use. The home entertainment system cost Herb plc £5,900 on 6 April 2016.
- (5) During the tax year 2016–17, Dill's three-year-old son was provided with a place at Herb plc's workplace nursery. The total cost to the company of providing this nursery place was £7,200 (240 days at £30 per day).
- (6) On 1 June 2016, Herb plc provided Dill with an interest-free loan of £80,000 which she used to renovate her main residence. No loan repayments were made before 5 April 2017.
- (7) On 25 January 2017, Herb plc paid a health club membership fee of £990 for the benefit of Dill.
- (8) During the tax year 2016–17, Dill used her private motor car for both private and business journeys. The total mileage driven by Dill throughout the tax year was 16,000 miles, with all of this mileage reimbursed by Herb plc at the rate of 25p per mile. However, only 14,500 miles were in the performance of Dill's duties for Herb plc.
- (9) During the tax year 2016–17, Dill paid an annual professional subscription of £560 which is relevant to her employment with Herb plc. She also paid an annual membership fee of £1,620 to a golf club which she uses to entertain Herb plc's suppliers. Herb plc did not reimburse Dill for either of these costs.
- (10) During the tax year 2016–17, Dill contributed the maximum possible tax relievable amount into Herb plc's HM Revenue and Customs' (HMRC) registered money purchase occupational pension scheme. The company did not make any contributions on her behalf. Dill has never previously been a member of a pension scheme.

#### Self-employment

For the tax year 2016–17, Dill's self-employed business made a tax adjusted trading loss of £58,000. Dill will claim relief for this loss against her total income for the tax year 2016–17.

#### Other income

- (1) On 1 November 2016, Dill received a premium bond prize of £1,000.
- (2) On 28 February 2017, Dill received interest of £1,840 on the maturity of savings certificates from NS&I (National Savings and Investments).

#### Required:

- (a) Explain why Dill was treated as not resident in the United Kingdom for the tax year 2015–16. (3 marks)

- (b) Calculate Dill's taxable income for the tax year 2016–17.

Note: You should indicate by the use of zero (0) any items which are not taxable or deductible. (12 marks)

**(15 marks)**

- 33** Last-Orders Ltd ceased trading on 31 January 2017, having traded profitably for the previous ten years. The ordinary share capital of Last-Orders Ltd is owned 80% by Gastro Ltd and 20% by Gourmet Ltd.

Last-Orders Ltd's summarised statement of profit or loss for the ten-month period ended 31 January 2017 is as follows:

	Note	£
<b>Revenue</b>		176,790
<b>Operating expenses</b>		
Depreciation		(9,460)
Employee costs	1	(142,400)
Lease of motor car	2	(1,600)
Other expenses	3	<u>(299,810)</u>
<b>Operating loss</b>		(276,480)
<b>Other income</b>		
Property business income	4	11,500
Profit on disposal of freehold office building	5	<u>47,400</u>
<b>Loss before taxation</b>		<u>(217,580)</u>

**Note 1 –**

Employee costs are as follows:

	£
Counselling services provided to employees who were made redundant	5,200
Pension contributions paid on behalf of employees	12,200
Employer class 1 national insurance contributions (NICs)	11,890
Employer class 1A NICs payable on benefits provided for employees	1,160
Employee bonuses declared but unpaid – these will not be paid during 2017	10,400
Balance of expenditure (all allowable)	<u>101,550</u>
	<u>142,400</u>

**Note 2 – Lease of motor car**

The lease is in respect of a motor car with CO<sub>2</sub> emissions of 120 grams per kilometre.

**Note 3 –**

Other expenses are as follows:

	£
Entertaining UK suppliers	1,920
Entertaining overseas customers	440
Qualifying charitable donation	800
Balance of expenditure (all allowable)	<u>296,650</u>
	<u>299,810</u>

**Note 4 – Property business income**

During the ten-month period ended 31 January 2017, Last-Orders Ltd let out a freehold office building. The following income and expenditure was received or incurred during the final 12 months of trading:

Date received/(paid)		£
1 February 2016	Rent for the six months ended 31 July 2016	19,200
1 February 2016	Insurance for the 12 months ended 31 January 2017	(1,800)
1 August 2016	Rent for the six months ended 31 January 2017	19,200
21 November 2016	Repairs following a fire (not covered by insurance)	(7,700)



**Note 5 – Profit on disposal of freehold office building**

The office building was sold on 31 January 2017. The profit has been calculated as disposal proceeds of £126,800 less cost of £79,400. The indexation allowance is £12,900. The office building was never used for business purposes.

**Additional information**

Plant and machinery – On 1 April 2016, the tax written down value of Last-Orders Ltd’s main pool was £24,200. All of the items included in the main pool were sold for £13,600 on 31 January 2017, with none of the items sold for more than their original cost.

Last-Orders Ltd has previously always made up its accounts to 31 March.

Both Gastro Ltd and Gourmet Ltd are profitable and make up their accounts to 31 March.

**Required:**

**(a) Calculate Last-Orders Ltd’s tax adjusted trading loss for the ten-month period ended 31 January 2017.**

Notes:

- (1) Your computation should commence with the operating loss figure of £276,480, and should also list all of the items referred to in notes (1) to (3), indicating by the use of zero (0) any items which do not require adjustment.
- (2) You should assume that Last-Orders Ltd claims the maximum possible amount of capital allowances.

(6 marks)

**(b) Assuming that Last-Orders Ltd claims relief for its trading loss against its taxable total profits for the ten-month period ended 31 January 2017, calculate the company’s taxable total profits for this period.**

Note: Your answer should show the amount of unused trading loss at 31 January 2017. (5 marks)

**(c) Explain the alternative ways in which Last-Orders Ltd’s unused trading loss for the ten-month period ended 31 January 2017 could be relieved.** (4 marks)

**(15 marks)**

**End of Question Paper**