
Answers

Section C

Marks

Aurora

(a)

Inheritance tax (IHT) payable on Aurora's estate

| | £ | |
|---|-----------|-------|
| Let property (350,000 x 3) | 1,050,000 | ½ |
| Mortgages (115,000 x 2) | (230,000) | ½ |
| Main residence | 500,000 | ½ |
| | <hr/> | |
| Chargeable estate | 1,320,000 | |
| | <hr/> | |
| IHT liability (1,320,000 – 150,000 – 150,000) at 40% | 408,000 | 1½ |
| | | <hr/> |
| | | 3 |
| | | <hr/> |

(b)

Aurora – Chargeable gains on disposal of let properties

| | Property 1 £ | Property 2 £ | Property 3 £ | |
|--|-----------------|-----------------|-----------------|-------|
| Chargeable gain (before reliefs) | 100,000 | 150,000 | 150,000 | ½ |
| Principal private residence relief 100,000 x (2 + 1.5)/15 | (23,333) | | | |
| 150,000 x (12 + 1.5)/20 | | | (101,250) | 1½ |
| Letting relief | (23,333) | | (40,000) | 1 |
| | <hr/> | <hr/> | <hr/> | |
| Chargeable gain (after reliefs) | 53,334 | 150,000 | 8,750 | |
| | <hr/> | <hr/> | <hr/> | |
| | | | | <hr/> |
| | | | | 3 |
| | | | | <hr/> |

(c)(i)

| | £ | |
|---|--------|---------------|
| Extension of basic rate tax band | | 2 |
| 50,000 (40,000 x 100/80) at 20% (40% - 20%) | 10,000 | 1 |
| Basic rate relief at source (50,000 at 20%) | 10,000 | |
| | <hr/> | |
| Total tax relief | 20,000 | |
| | <hr/> | |
| | | <hr/> 3 <hr/> |

Tutorial note: A gross personal pension contribution of £50,000 will attract tax relief entirely at the higher rate (the basic rate band being extended to £87,500 (37,500 + 50,000), which is the same as Aurora's taxable income), so the total tax relief is effectively £50,000 at 40% = £20,000.

(c)(ii)

It is beneficial for Aurora to restrict her net personal pension contributions to £40,000 for each of the three tax years 2019-20, 2020-21 and 2021-22, because any contributions in excess of this would only attract tax relief at the basic rate.

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Sam, Tam and Uma

(a)

Trading income assessments

| | £ | |
|---|---------|---|
| Sam | | |
| Year ended 30 June 2019 137,500 x 80% | 110,000 | 1 |
| | | |
| Tam | | |
| Year ended 30 June 2019 137,500 x 20% | 27,500 | 1 |
| Year ended 30 June 2020 132,000 x 4/12 x 20% | 8,800 | 1 |
| Relief for overlap profits | (7,800) | 1 |
| | 28,500 | |
| Uma | | |
| Year ended 30 June 2020 132,000 x 5/12 x 20% | 11,000 | 1 |
| | | |
| | | 5 |

Tutorial notes:

- (1) *The cessation rules apply to Tam because she left the partnership on 31 October 2019. For 2019-20, she is assessed on her share of the profits for the year ended 31 June 2019 and for the four-month period 1 July to 31 October 2019.*
- (2) *The commencement rules apply to Uma because she joined the partnership on 1 November 2019. For 2019-20, she is assessed on her share of the profits for the five-month period 1 November 2019 to 5 April 2020.*

(b)

Sam – Taxable income 2019-20

| | £ | |
|---|---------|----|
| Trading profit | 110,000 | ½ |
| Personal allowance 12,500 – 5,000 ((110,000 – 100,000)/2)) | (7,500) | 1½ |
| Taxable income | 102,500 | |

Tam – Taxable income 2019-20

| | £ | |
|--|----------|----|
| Trading profit | 28,500 | ½ |
| Employment income | | |
| Salary (3,400 x 7) | 23,800 | ½ |
| Pension contributions - Employee (23,800 x 5%) | (1,190) | ½ |
| - Employer | 0 | ½ |
| Car benefit (36,600 x (22% + 0%) x 7/12) | 4,697 | 1½ |
| Beneficial loan | 0 | ½ |
| Pensions (3,650 + 11,300) | 14,950 | 1 |
| | 70,757 | |
| Personal allowance | (12,500) | ½ |
| Taxable income | 58,257 | |

Tutorial notes:

- (1) *There is no 4% surcharge for Tam's diesel company car because it met the real driving emissions 2 (RDE2) standard. Company diesel cars meeting this standard are treated as if they are petrol cars.*
- (2) *There is no taxable benefit in respect of Tam's interest-free loan as it does not exceed the de minimis limit of £10,000 during the tax year.*

Uma – Taxable income 2019-20

| | £ | |
|-------------------------|----------|-----------|
| Trading profit | 11,000 | ½ |
| Director's remuneration | 180,000 | ½ |
| Dividend income | 2,400 | ½ |
| Interest paid | (2,100) | ½ |
| | <hr/> | |
| | 191,300 | |
| Personal allowance | 0 | ½ |
| | <hr/> | |
| Taxable income | 191,300 | |
| | <hr/> | |
| | | <hr/> |
| | | 10 |
| | | <hr/> |
| | | 15 |
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Tutorial note: No personal allowance is available because Uma's adjusted net income of £191,300 exceeds £125,000.

Harbour

(a)

Harbour Ltd – Corporation tax computation for the four-month period ending 31 March 2020

| | £ | |
|---|-----------|----|
| Operating profit | 715,500 | |
| Depreciation | 11,760 | ½ |
| Amortisation | 1,300 | ½ |
| Deduction for lease premium (working 1) | (806) | W1 |
| Interest payable (24,600 + 12,300 – 20,500) | (16,400) | 1 |
| Capital allowances (working 2) | (337,626) | W2 |
| | <hr/> | |
| Trading profit | 373,728 | |
| Property business income (15,600 x 4/6) – (1,800 x 4/12) | 9,800 | 2 |
| Chargeable gain | 104,300 | ½ |
| | <hr/> | |
| Taxable total profits | 487,828 | |
| | <hr/> | |
| Corporation tax (487,828 at 19%) | 92,687 | ½ |
| | <hr/> | |

Working 1 – Deduction for lease premium

| | £ | |
|-------------------------------------|----------|----|
| Premium received | 78,000 | |
| Less: 78,000 x 2% x (20 - 1) | (29,640) | |
| | <hr/> | |
| | 48,360 | 1½ |
| | <hr/> | |
| Deduction $48,360/20 \times 4/12 =$ | 806 | 1 |
| | <hr/> | |

Working 2 – Capital allowances

| | Special rate pool £ | Allowances £ | |
|--|------------------------------------|-------------------------|----------------|
| Additions qualifying for the annual investment allowance (AIA) | | | |
| Long-life assets | 548,000 | | ½ |
| AIA – 100% (1,000,000 x 4/12) | (333,333) | 333,333 | 1 |
| | <hr/> | | |
| WDA – 6% x 4/12 | 214,667 (4,293) | 4,293 | 1 |
| | <hr/> | | |
| WDV carried forward | 210,374 | | |
| | <hr/> | | |
| Total allowances | | <hr/> 337,626 <hr/> | <hr/> 10 <hr/> |

(b)(i)

- | | | |
|-----|---|---------------|
| (1) | Tax evasion is illegal and involves the reduction of tax liabilities by not providing information to which HM Revenue and Customs (HMRC) is entitled, or providing HMRC with deliberately false information. | 1 |
| (2) | In contrast, tax avoidance involves the minimisation of tax liabilities by the use of any lawful means. | 1 |
| (3) | If Harbour Ltd extends its accounting period in order to save corporation tax, then HMRC will not view this as tax evasion because it is quite lawful for the company to prepare accounts up to whatever accounting date it wishes. | 1 |
| | | <hr/> 3 <hr/> |

(b)(ii)

Capital allowances

Since the full amount of annual investment allowance will be available, capital allowances will increase to £548,000 (548,000 x 100%). 1

Chargeable gain

The capital loss will be offset against Harbour Ltd's chargeable gain because they will arise within the same accounting period. This will reduce the company's chargeable gain to £62,300 (104,300 – 42,000). 1

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