Professional Level – Options Module

# Advanced Taxation (United Kingdom)

September/December 2015

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

This question paper is divided into two sections:

Section A – BOTH questions are compulsory and MUST be attempted

Section B – TWO questions ONLY to be attempted

**Tax rates and allowances are on pages 2–5**

**Do NOT open this question 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 P6 (UK)

ACCA

**SUPPLEMENTARY INSTRUCTIONS**

1. You should assume that the tax rates and allowances for the tax year 2014/15 and for the financial year to 31 March 2015 will continue to apply for the foreseeable future unless you are instructed otherwise.
2. Calculations and workings need only be made to the nearest £.
3. All apportionments should be made to the nearest month.
4. 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 – £31,865 | 20% | 10% |
| Higher rate | £31,866 to £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 £2,880 of taxable income.

**Personal allowances**

| | |
|---|---|
| **Personal allowance** | |
| Born on or after 6 April 1948 | £10,000 |
| 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) | £27,000 |

**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 $CO_2$ 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 | 11% |
| 95 grams per kilometre | 12% |

**Car fuel benefit**

The base figure for calculating the car fuel benefit is £21,700.

**New individual savings accounts (NISAs)**

The overall investment limit is £15,000.

**Pension scheme limits**

| | |
|---|---|
| Annual allowance – 2014/15 | £40,000 |
| – 2011/12 to 2013/14 | £50,000 |
| Lifetime allowance | £1,250,000 |
| Maximum contribution that can qualify for tax relief without any earnings | £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**

| | |
|---|---|
| Rate of allowance | 100% |
| Expenditure limit | £500,000 |

**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** | **2012** | **2013** | **2014** |
|---|---|---|---|
| Small profits rate | 20% | 20% | 20% |
| Main rate | 24% | 23% | 21% |
| Lower limit | £300,000 | £300,000 | £300,000 |
| Upper limit | £1,500,000 | £1,500,000 | £1,500,000 |
| Standard fraction | 1/100 | 3/400 | 1/400 |

**Marginal relief**

Standard fraction x (U – A) x N/A

**Patent box – deduction from net patent profit**

Net patent profit x ((main rate – 10%)/main rate)

**Value added tax (VAT)**

| | |
|---|---|
| Standard rate | 20% |
| Registration limit | £81,000 |
| Deregistration limit | £79,000 |

**Inheritance tax: nil rate bands and tax rates**

| | £ | |
|---|---|---|
| 6 April 2014 to 5 April 2015 | 325,000 | |
| 6 April 2013 to 5 April 2014 | 325,000 | |
| 6 April 2012 to 5 April 2013 | 325,000 | |
| 6 April 2011 to 5 April 2012 | 325,000 | |
| 6 April 2010 to 5 April 2011 | 325,000 | |
| 6 April 2009 to 5 April 2010 | 325,000 | |
| 6 April 2008 to 5 April 2009 | 312,000 | |
| 6 April 2007 to 5 April 2008 | 300,000 | |
| 6 April 2006 to 5 April 2007 | 285,000 | |
| 6 April 2005 to 5 April 2006 | 275,000 | |
| 6 April 2004 to 5 April 2005 | 263,000 | |
| 6 April 2003 to 5 April 2004 | 255,000 | |
| 6 April 2002 to 5 April 2003 | 250,000 | |
| 6 April 2001 to 5 April 2002 | 242,000 | |
| 6 April 2000 to 5 April 2001 | 234,000 | |
| Rate of tax on excess over nil rate band | – 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**

| | |
|---|---|
| Rates of tax – Lower rate | 18% |
| – Higher rate | 28% |
| Annual exempt amount | £11,000 |
| Entrepreneurs' relief – Lifetime limit | £10,000,000 |
| – Rate of tax | 10% |

## National insurance contributions
### (Not contracted out rates)

| | | | |
|---|---|---|---|
| Class 1 | Employee | £1 – £7,956 per year | Nil |
| | | £7,957 – £41,865 per year | 12% |
| | | £41,866 and above per year | 2% |
| Class 1 | Employer | £1 – £7,956 per year | Nil |
| | | £7,957 and above per year | 13·8% |
| | | Employment allowance | £2,000 |
| Class 1A | | | 13·8% |
| Class 2 | | £2·75 per week | |
| | | Small earnings exception limit | £5,885 |
| Class 4 | | £1 – £7,956 per year | Nil |
| | | £7,957 – £41,865 per year | 9% |
| | | £41,866 and above per year | 2% |

## Rates of interest (assumed)

| | |
|---|---|
| Official rate of interest | 3·25% |
| Rate of interest on underpaid tax | 3% |
| Rate of interest on overpaid tax | 0·5% |

## Stamp duty land tax

| | |
|---|---|
| £150,000 or less (1) | Nil |
| £150,001 – £250,000 | 1% |
| £250,001 – £500,000 | 3% |
| £500,001 – £1,000,000 | 4% |
| £1,000,001 – £2,000,000 (2) | 5% |
| £2,000,001 or more (2) | 7% |

(1) For residential property, the nil rate is restricted to £125,000.

(2) The 5% and 7% rates apply to residential properties only. The 4% rate applies to all non-residential properties where the consideration is in excess of £500,000.

## Stamp duty

| | |
|---|---|
| Shares | 0·5% |

**This is a blank page.**
**Question 1 begins on page 7.**

**Section A – BOTH questions are compulsory and MUST be attempted**

**1** Your manager has had a meeting with Jonny who is establishing a new business. An extract from an email from your manager, a schedule and a computation are set out below.

**Extract from the email from your manager**

Jonny was born in 1968. His new business will begin trading on 1 November 2015. Jonny will use an inheritance he received following the death of his mother to finance this new venture.

We have been asked to advise Jonny on his business and his inheritance. Some of the work has already been done; I want you to complete it.

**Please prepare a memorandum for Jonny's client file addressing the following issues:**

**(a)** Unincorporated business

I attach a schedule which sets out Jonny's recent employment income and his plans for the new business. I think you will find it useful to read the schedule before you go through the rest of this email.

You should assume that Jonny does not have any other sources of income or any taxable gains in any of the relevant tax years.

**(i)** Jonny's post-tax income

Jonny has asked for an approximation of his post-tax income position for the first two trading periods. I want you to prepare calculations in order to complete the following table, assuming that any available trading loss reliefs will be claimed in the most beneficial manner. You should include explanations of the options available to relieve the loss, clearly identifying the method which will maximise the tax saved (you do **not** need to consider carrying the loss forward).

Table to be completed

| | Strong demand £ | Weak demand £ |
|---|---|---|
| Aggregate budgeted net profit of the first two **trading periods** | 39,200 | 2,800 |
| Aggregate income tax (payable)/refundable in respect of the profit/loss for the first two **tax years** | ? | ? |
| Budgeted post-tax income | ? | ? |

Include a brief explanation as to why these calculations are only an approximation of Jonny's budgeted post-tax income.

**(ii)** Salesmen

Jonny intends to hire two salesmen to get the business started. Their proposed contractual arrangements are as set out in the attached schedule.

Explain which of the proposed contractual arrangements with the salesmen indicate that they would be self-employed and state any changes which should be made to the other arrangements in order to maximise the likelihood of the salesmen being treated as self-employed.

**(iii)** New contracts for the business

Jonny is hoping to obtain contracts with local educational establishments and has asked us to help. One of our clients is a college and an ex-client of ours provided services to a number of schools and colleges. Accordingly, we have knowledge and experience in this area.

Explain the extent to which it is acceptable for us to use the knowledge we have gained in respect of our existing client and ex-client to assist Jonny.

**(b) Jonny's inheritance from his mother**

Jonny's mother died on 31 July 2015. She left the whole of her estate, with the exception of a gift to charity, to Jonny. I attach a computation of the inheritance tax due; this was prepared by a junior member of staff and has not yet been reviewed. I can confirm, however, that all of the arithmetic, dates and valuations are correct. In addition, there were no other lifetime gifts, and none of the assets qualified for business property relief.

I want you to review the computation and identify any errors. You should explain each of the errors you find and calculate the value of the inheritance which Jonny will receive after inheritance tax has been paid.

Tax manager

Schedule – Employment income and plans for the new business

**Jonny's income**

Jonny worked full-time for many years until 30 June 2013 earning a salary of £6,000 per calendar month. From 1 July 2013, he worked part-time earning a salary of £2,000 per calendar month until he ceased employment on 31 March 2015.

Two budgets have been prepared for Jonny's business based on customer demand being either strong or weak. You should assume that no tax adjustments are required to Jonny's budgeted profit/loss figures for the first two trading periods.

For strong demand, the taxable trading profit for the first two tax years has been computed; these figures are correct and you do **not** need to check them. You will, however, need to calculate the equivalent figures for weak demand.

| | Strong demand £ | Weak demand £ |
|---|---|---|
| Budgeted net profit/(loss): | | |
| Eight months ending 30 June 2016 | 9,200 | (15,200) |
| Year ending 30 June 2017 | 30,000 | 18,000 |
| Aggregate budgeted net profit of the first two trading periods | 39,200 | 2,800 |
| Taxable trading profit/(loss): | | |
| 2015/16 | 5,750 | ? |
| 2016/17 | 19,200 | ? |

**Salesmen**

Jonny is proposing to enter into the following contractual arrangements with two part-time salesmen:

- They will work on Tuesday and Wednesday mornings each week for a two-month period.
- They will be paid a fee of £300 for each new sales contract obtained. No other payments will be made.
- They will use their own cars.
- Jonny will lend each of them a laptop computer.

Computation – Inheritance tax payable on the death of Jonny's mother

| | | |
|---|---|---|
| **Mother's lifetime gift** | | |
| | | £ |
| 1 June 2011 – Gift of cash to Jonny | | 30,000 |
| **Mother's chargeable estate at death on 31 July 2015** | | |
| | £ | £ |
| Freehold property – Mother's home | | 530,000 |
| UK quoted shares | | 400,000 |
| Chattels – furniture, paintings and jewellery | 40,000 | |
| *Less:* Items individually worth less than £6,000 | (25,000) | |
| | | 15,000 |
| Cash | | 20,000 |
| | | 965,000 |
| *Less:* Gift to charity | | (70,000) |
| Annual exemption | | (3,000) |
| Chargeable estate | | 892,000 |
| *Less:* Nil rate band | 325,000 | |
| Gift in the seven years prior to death (£30,000 – £6,000) | (24,000) | |
| | | (301,000) |
| | | 591,000 |
| Inheritance tax (£591,000 x 40%) | | 236,400 |

**Required:**

**Prepare the memorandum as requested in the email from your manager. The following marks are available:**

**(a) Unincorporated business:**

- **(i) Jonny's post-tax income.** (15 marks)
- **(ii) Salesmen.** (4 marks)
- **(iii) New contracts for the business.** (5 marks)

**(b) Jonny's inheritance from his mother.** (7 marks)

Professional marks will be awarded for following the manager's instructions, the clarity of the explanations and calculations, problem solving, and the overall presentation of the memorandum. (4 marks)

Notes
1. Assume that the tax rates and allowances for the tax year 2014/15 apply to all tax years.
2. Ignore national insurance contributions throughout this question.

**(35 marks)**

**2** Your manager has received a letter from Christina. Christina is the managing director of Sprint Ltd and owns the whole of that company's ordinary share capital. Sprint Ltd is a client of your firm. Extracts from the letter from Christina and an email from your manager are set out below.

**Extract from the letter from Christina**

I intend to purchase the whole of the ordinary share capital of Iron Ltd on 1 November 2015. My company, Sprint Ltd, purchases components from Iron Ltd, so the two companies will fit together well. I hope to increase the value of Iron Ltd over the next three to five years and then to sell it at a profit.

I need your advice on the following matters:

**Corporation tax payable**

Iron Ltd has not been managed particularly well. It has had significant bad debts and, as a result, is in need of more cash. To help determine its financial requirements, I need to know how much corporation tax Iron Ltd will have to pay in respect of its results for the 16-month period ending 30 June 2016. Iron Ltd's tax adjusted trading income for this period is budgeted to be only £30,000. In fact, if we discover further problems, it is quite possible that Iron Ltd will make a trading loss for this period; but please base your calculations on the budgeted profit figure of £30,000.

Iron Ltd has no income other than trading income. Following the acquisition, Iron Ltd will sell a small industrial building for £160,000 and an item of fixed machinery for £14,000 on 1 December 2015. The industrial building and the item of fixed machinery were both purchased on 1 June 2012 for £100,000 and £13,500 respectively. At that time, rollover relief of £31,800 was claimed against the acquisition of the industrial building and £3,200 against the acquisition of the item of fixed machinery.

**Ownership of Iron Ltd**

I need to decide whether I should purchase the shares in Iron Ltd personally or whether the shares should be purchased by Sprint Ltd. I will be the managing director of Iron Ltd regardless of who purchases the shares.

My preference would be to own Iron Ltd personally. However, I would be interested to learn of any advantages to the company being owned by Sprint Ltd. When Iron Ltd is eventually sold, I intend to use the proceeds to purchase a holiday home in Italy.

**Value added tax (VAT)**

Iron Ltd is not registered for the purposes of VAT. The current management of the company has told me that the level of bad debts is keeping the company's cash receipts in a 12-month period below the registration limit of £81,000. However, I suspect that when I have the opportunity to look at the figures in more detail, it will become apparent that the company should be registered.

**Extract from the email from your manager**

**Additional information**

1. Sprint Ltd owns the whole of the ordinary share capital of Olympic Ltd. Both these companies are profitable and prepare accounts to 30 June each year. Both companies are registered for the purposes of VAT.
2. Sprint Ltd, Olympic Ltd and Iron Ltd are all UK resident trading companies.
3. Sprint Ltd will sell a warehouse on 1 February 2016. This will result in a capital loss of £38,000.
4. Iron Ltd currently makes up its accounts to 28 February each year. Following its acquisition, however, its next set of accounts will be for the 16 months ending 30 June 2016.
5. Iron Ltd currently has no associated companies.

**Please carry out the work set out below.**

There will be quite a few points to draw to Christina's attention, so keep each one fairly brief.

**(a) Iron Ltd – Corporation tax payable**

Assuming the entire ordinary share capital of Iron Ltd is purchased by Christina personally on 1 November 2015, calculate the corporation tax payable by Iron Ltd in respect of the 16-month period ending 30 June 2016, and state when this tax will be due for payment.

**(b) Ownership of Iron Ltd**

Explain the tax matters which Christina needs to be aware of in order to decide whether the ordinary share capital of Iron Ltd should be purchased by herself, personally, or by Sprint Ltd. You should assume that Iron Ltd will be required to register for VAT. You should consider the tax implications of both:

– the ownership of Iron Ltd; and
– the eventual sale of Iron Ltd (by either Christina or Sprint Ltd).

You should recognise that, regardless of who purchases and subsequently sells Iron Ltd, Christina intends to use the proceeds for personal purposes and that she is a higher rate taxpayer.

**(c) VAT registration**

Set out the matters which Christina should be aware of in relation to the need for Iron Ltd to register for VAT and the implications for that company of registering late.

Tax manager

**Required:**

**Carry out the work required as requested in the email from your manager. The following marks are available:**

**(a) Iron Ltd – Corporation tax payable.**

**Note: The following figures from the Retail Prices Index should be used, where necessary.**

| | | |
|---|---|---|
| June 2012 | 241·8 | |
| December 2015 | 257·2 | (10 marks) |

**(b) Ownership of Iron Ltd.** (12 marks)

**(c) Value added tax (VAT) registration.** (3 marks)

**(25 marks)**

**Section B – TWO questions ONLY to be attempted**

**3** Cinnabar Ltd requires advice on the corporation tax treatment of expenditure on research and development, the sale of an intangible asset, and a proposed sale of shares. Cinnabar Ltd has also requested advice on the potential to claim relief for losses incurred in a new joint venture.

Cinnabar Ltd:
- Is a UK resident trading company.
- Has one wholly-owned UK subsidiary, Lapis Ltd.
- Is a small enterprise for the purposes of research and development expenditure.
- Prepares accounts to 31 March each year.
- Expects to pay corporation tax at the main rate for all relevant accounting periods.
- Intends to enter into a joint venture with another UK company, Amber Ltd. This joint venture will be undertaken by a newly incorporated company, Beryl Ltd.

Research and development expenditure – year ended 31 March 2015:
- The expenditure on research and development activities was made up as follows:

| | £ |
|---|---|
| Computer hardware | 44,000 |
| Software and consumables | 18,000 |
| Staff costs | 136,000 |
| Rent | 30,000 |
| | 228,000 |

- The staff costs include a fee of £10,000 paid to an external contractor, who was provided by an unconnected company.
- The remainder of the staff costs relates to Cinnabar Ltd's employees, who are wholly engaged in research and development activities.
- The rent is an appropriate allocation of the rent payable for Cinnabar Ltd's premises for the year.

Sale of an intangible asset to Lapis Ltd:
- The intangible asset was acquired by Cinnabar Ltd in May 2010 for £82,000.
- The asset was sold to Lapis Ltd on 1 November 2014 for its market value on that date of £72,000, when its tax written down value was £65,600.

Sale of shares in Garnet Ltd:
- Cinnabar Ltd acquired a 12% shareholding in Garnet Ltd, a UK resident trading company, in July 2009 for £120,000.
- Cinnabar Ltd sold one third of this shareholding on 20 October 2014.
- Cinnabar Ltd intends to sell the remaining two thirds of this shareholding on 30 November 2015 for £148,000.
- It would be possible to bring forward this sale to October 2015 if it is beneficial to do so.

Beryl Ltd:
- Will be incorporated in the UK and will commence trading on 1 January 2016.
- Is anticipated to generate a trading loss of £80,000 in its first accounting period ending 31 December 2016.
- Will have no sources of income other than trading income.

Alternative capital structures for Beryl Ltd:
- Two alternative structures have been proposed for the shareholdings in Beryl Ltd:

  - **Structure 1:** 76% of the shares in Beryl Ltd will be held by Amber Ltd, with the remaining 24% held by Cinnabar Ltd;
  - **Structure 2:** 70% of the shares will be held by Amber Ltd, 24% by Cinnabar Ltd and the remaining 6% held personally by Mr Varis, the managing director of Amber Ltd.

**Required:**

**(a) (i) Explain, with supporting calculations, the treatment for corporation tax purposes of the items included in Cinnabar Ltd's research and development expenditure for the year ended 31 March 2015.** (5 marks)

**(ii) Explain the corporation tax implications for Cinnabar Ltd of the sale of the intangible asset to Lapis Ltd.** (2 marks)

**(b) Calculate the after-tax proceeds which would be received on the proposed sale of the Garnet Ltd shares on 30 November 2015 and explain the potential advantage of bringing forward this sale to October 2015.**

Note: The following indexation factor should be used where necessary:

July 2009 to November 2015 – 0·1903 (5 marks)

**(c) Explain, with supporting calculations, the extent to which Cinnabar Ltd can claim relief for Beryl Ltd's trading loss under each of the proposed alternative capital structures.** (8 marks)

**(20 marks)**

**4** Hyssop Ltd wishes to provide assistance with home to work travel costs for Corin, who is an employee, and also requires advice on the corporation tax implications of the purchase of a short lease and the value added tax (VAT) implications of the sale of a warehouse.

**Hyssop Ltd:**

– Is a UK resident trading company.
– Prepares accounts to 31 December each year.
– Pays corporation tax at the small profits rate.
– Is registered for VAT.
– Leased a factory on 1 February 2015.

**Corin:**

– Is resident and domiciled in the UK.
– Is an employee of Hyssop Ltd, who works only at the company's head office.
– Earns an annual salary of £55,000 from Hyssop Ltd and has no other source of income.

**Hyssop Ltd – assistance with home to work travel costs:**

– Hyssop Ltd is considering two alternatives to provide assistance with Corin's home to work travel costs.

  **Alternative 1 – provision of a motorcycle:**

  – Hyssop Ltd will provide Corin with a leased motorcycle for travelling from home to work.
  – Provision of the leased motorcycle, including fuel, will cost Hyssop Ltd £3,160 per annum. This will give rise to an annual taxable benefit of £3,160 for Corin.
  – Corin will incur no additional travel or parking costs in respect of his home to work travel.

  **Alternative 2 – payment towards the cost of driving and provision of parking place:**

  – Hyssop Ltd will reimburse Corin for the cost of driving his own car to work up to an amount of £2,240 each year.
  – Corin estimates that his annual cost for driving from home to work is £2,820
  – Additionally, Hyssop Ltd will pay AB Parking Ltd £920 per year for a car parking space for Corin near the head office.

**Acquisition of a factory:**

– Hyssop Ltd acquired a 40-year lease on a factory on 1 February 2015 for which it paid a premium of £260,000.
– The factory is used in Hyssop Ltd's trade.

**Disposal of a warehouse:**

– Hyssop Ltd has agreed to sell a warehouse on 31 December 2015 for £315,000, which will give rise to a chargeable gain of £16,520.
– Hyssop Ltd had purchased the warehouse when it was newly constructed on 1 January 2012 for £270,000 (excluding VAT).
– The warehouse was used by Hyssop Ltd in its trade until 31 December 2014, since when it has been rented to an unconnected party.
– Until 1 January 2015, Hyssop Ltd made only standard-rated supplies for VAT purposes.
– Hyssop Ltd has not opted to tax the warehouse for VAT purposes.
– The capital goods scheme for VAT applies to the warehouse.

**Required:**

Note: You should ignore value added tax (VAT) for parts (a) and (b).

**(a) Explain, with the aid of calculations, which of the two alternatives for providing financial assistance for home to work travel is most cost efficient for:**

**(i) Corin.** (5 marks)

**(ii) Hyssop Ltd.** (3 marks)

**(b) Explain, with the aid of calculations, the corporation tax implications for Hyssop Ltd of the acquisition of the leasehold premises on 1 February 2015, in relation to the company's tax adjusted trading profits for the year ended 31 December 2015 and its ability to roll over the gain on the sale of the warehouse.** (8 marks)

**(c) Explain, with the aid of calculations, the VAT implications of the disposal of the warehouse on 31 December 2015.** (4 marks)

**(20 marks)**

**5** Your firm has been asked to provide advice to two unrelated clients, Stella and Maris. Stella requires advice on the tax implications of making an increased contribution to her personal pension scheme. Maris requires advice regarding the lump sum payment she has received from her pension scheme and the inheritance tax exemptions available on her proposed lifetime gifts.

**(a)** Stella:

– Is resident and domiciled in the UK.
– Was born on 1 May 1958.
– Receives a gross salary of £80,000 each year.
– Has income from a portfolio of unfurnished properties, totalling £92,000 in the tax year 2015/16.
– Has no other source of taxable income.
– Wishes to make an increased contribution to her personal pension scheme in the tax year 2015/16.

Personal pension scheme contributions:

– Stella has contributed £40,000 (gross) to her personal pension scheme in each of the four tax years 2011/12, 2012/13, 2013/14 and 2014/15.
– Stella wishes to make an increased contribution of £90,000 (gross) in the tax year 2015/16.

**Required:**

**Calculate Stella's income after tax and pension contributions for the tax year 2015/16 if she does pay £90,000 (gross) into her personal pension scheme.** (10 marks)

**(b)** Maris:

– Is resident and domiciled in the UK and is widowed.
– Has three married children and five grandchildren under the age of 12.
– Attained the age of 68 on 30 January 2015 and decided to vest her pension benefits on that date.
– Wishes to make regular gifts to her family in order to reduce inheritance tax on her death.

Personal pension fund:

– Maris had a money purchase pension scheme which was valued at £1,550,000 on 30 January 2015.
– Maris took the maximum amount possible as a lump sum on that date.
– Maris does not understand why the amount she received was £447,500.

Assets and income:

– In addition to pension income and savings income totalling around £60,000, Maris receives dividends from shareholdings in quoted companies of around £45,000 each year.
– The shareholdings in quoted companies are currently valued at £980,000.
– Maris wishes to gift some of the shares or the dividend income to her children and grandchildren on their birthdays each year.
– Maris already makes gifts each year to use her annual exemption for inheritance tax purposes.

**Required:**

**(i) Explain how the cash of £447,500 received by Maris as a lump sum from her pension scheme was calculated.** (4 marks)

**(ii) Advise Maris of TWO relevant exemptions from inheritance tax which she will be able to use when making the birthday gifts, together with any conditions she will need to comply with in order to obtain them.** (6 marks)

**(20 marks)**

**End of Question Paper**