Answers

Marks

1 (a) Josie Jones – Income tax computation 2011–12

	£	£	Marks
Trading profit (working 1)		64,000	W1
Employment income			
Salary (15,100 x 8)		120,800	1
Removal expenses (11,600 – 8,000)		3,600	1
Beneficial loan (33,000 at 4% x 7/12)		770	1½
Staff canteen		0	½
Car benefit (working 3)		1,584	W3
Property business profit			
Property two (7,200 – 2,100)	5,100		1
Property one	0		1
		5,100	
Building society interest (8,960 x 100/80)		11,200	½
Dividends (6,480 x 100/90)		7,200	½
Premium bond prize		0	½
		214,254	
Personal allowance		0	1
Taxable income		214,254	

£		£	Marks
40,500	(working 4) at 20%	8,100	W4 ½
115,000	at 40%	46,000	½
51,554	(214,254 – 7,200 – 155,500) at 50%	25,777	½
7,200	at 42·5%	3,060	½
214,254			

	£	£	Marks
Income tax liability		82,937	
Tax suffered at source			
PAYE	43,777		½
Building society interest (11,200 x 20%)	2,240		½
Dividends (7,200 at 10%)	720		½
		(46,737)	
Income tax payable		36,200	

Tutorial notes:

(1) *Only £8,000 of the relocation costs is exempt.*

(2) *The provision of meals in a staff canteen does not give rise to a taxable benefit.*

(3) *The furnished holiday letting loss from property one can only be carried forward against future furnished holiday letting profits.*

(4) *Premium bond prizes are exempt from income tax.*

(5) *No personal allowance is available as Josie's adjusted net income of £208,754 (214,254 – 5,500) exceeds £114,950.*

Working 1 – Trading profit

	£	£	Marks
Year ended 30 April 2011	98,200		½
Capital allowances (working 2)	(2,640)		W2
		95,560	
Period ended 30 June 2011	16,600		½
Balancing allowance (working 2)	(6,460)		W2
		10,140	
		105,700	
Relief for overlap profits		(41,700)	1
		64,000	

			Marks
Working 2 – Capital allowances			
	Main pool £	**Allowances £**	
Year ended 30 April 2011			
WDV brought forward	13,200		½
WDA – 20%	(2,640)	2,640	½
WDV carried forward	10,560		
Period ended 30 June 2011			
Addition	3,600		½
Proceeds	(7,700)		½
Balancing allowance	(6,460)	6,460	½

Working 3 – Car benefit

(1)	The relevant percentage for the car benefit is 22% (15% + 4% (145 – 125 = 20/5) + 3% charge for a diesel motor car).	1½
(2)	The motor car was available during the period 1 October 2011 to 5 April 2012, so the benefit for 2011–12 is £1,584 (14,400 x 22% x 6/12).	1

Working 4 – Tax bands

(1)	Josie's basic and higher rate tax bands are extended by £5,500 (4,400 x 100/80) to £40,500 (35,000 + 5,500) and £155,500 (150,000 + 5,500) in respect of the gift aid donations.	1
		20

(b)	**(i)**	(1)	Josie's balancing payment for 2011–12 due on 31 January 2013 is £1,800 (36,200 – 34,400).	1½
		(2)	Her payments on account for 2012–13 will be £18,100 (36,200 x 50%). These will be due on 31 January and 31 July 2013.	1½
				3
	(ii)	(1)	For 2012–13 the tax on Josie's employment income will be collected under PAYE.	1
		(2)	Therefore a claim can be made to reduce the payments on account so that they just cover any remaining income tax that is payable, such as that on the property business profit.	1
				2
				25

2 (a) Clueless Ltd – Corporation tax computation for the year ended 31 March 2012

	£	
Trading profit (working 1)	355,760	W1
Loan interest	32,800	1
Taxable total profits	388,560	
Gift aid donations	(900)	½
Taxable total profits	387,660	
Franked investment income (working 3)	23,000	W3
Augmented profits	410,660	
Corporation tax (387,660 at 26%)	100,792	½
Marginal relief (working 4)		
3/200 (750,000 – 410,660) x 387,660/410,660	(4,805)	W4 1
	95,987	

Marks

Working 1 – Trading profit for the year ended 31 March 2012

	£	£	
Profit before taxation	382,610		
Depreciation	15,740		½
Donations to political parties	400		½
Donations paid under the gift aid scheme	900		½
Accountancy	0		½
Legal fees	0		½
Repairs	0		½
Entertaining suppliers	3,600		½
Entertaining employees	0		½
Gifts to customers – pens	0		½
Gifts to customers – food hampers	1,650		½
Capital allowances (working 2)		49,140	W2 ½
	404,900	49,140	
	(49,140)		
Trading profit	355,760		

Tutorial notes:

(1) *The only exception to the non-deductibility of entertainment expenditure is when it is in respect of employees.*

(2) *Gifts to customers are an allowable deduction if they cost less than £50 per recipient per year, are not of food, drink, tobacco or vouchers for exchangeable goods, and carry a conspicuous advertisement for the company making the gift.*

Working 2 – Capital allowances

	£	Main pool £	Special rate pool £	Allowances £	
WDV brought forward		12,400	13,500		1
Additions qualifying for AIA					
Machinery	42,300				
AIA – 100%	(42,300)	0		42,300	1
Other additions					
Motor car [1]		13,800			½
Motor car [2]			11,800		½
Proceeds			(9,300)		½
		26,200	16,000		
WDA – 20%		(5,240)		5,240	½
WDA – 10%			(1,600)	1,600	1
WDV carried forward		20,960	14,400		
Total allowances				49,140	

Tutorial notes:

(1) *Motor car [1] has CO_2 emissions between 111 and 160 grams per kilometre and therefore qualifies for writing down allowances at the rate of 20%.*

(2) *Motor car [2] has CO_2 emissions over 160 grams per kilometre and therefore qualifies for writing down allowances at the rate of 10%. The private use of a motor car is irrelevant, since such usage will be assessed on the employee as a benefit.*

Working 3 – Franked investment income

(1) Franked investment income is £23,000 (16,200 + 4,500 = 20,700 x 100/90). 1½
The dividends from the 100% subsidiary company are not franked investment income as they are group dividends. ½

Tutorial note: *As far as paper F6(UK) is concerned, all overseas dividends are exempt from UK corporation tax. They are included as franked investment income when calculating a company's augmented profits in exactly the same way as UK dividends.*

Marks

Working 4 – Upper limit

(1) Clueless Ltd has one associated company, so the upper limit is reduced to £750,000 (1,500,000/2). ½

16

(b) **(i)** (1) Clueless Ltd's self-assessment tax return for the year ended 31 March 2012 must be submitted by 31 March 2013. 1

(ii) (1) If Clueless Ltd has straightforward accounts, it could use the software provided by HM Revenue and Customs. This automatically produces accounts and tax computations in the iXBRL format. 1

(2) Alternatively, other software that automatically produces iXBRL accounts and computations could be used. 1

(3) A tagging service could be used to apply the appropriate tags to the accounts and tax computations, or Clueless Ltd could use software to tag documents itself. 1

3

(c) **(i)** (1) Clueless Ltd can use both schemes because its expected taxable turnover for the next 12 months does not exceed £1,350,000 exclusive of VAT. 1½

(2) In addition, for both schemes the company is up to date with its VAT payments, and for the cash accounting scheme it is up to date with its VAT returns. 1 ½

(3) With the cash accounting scheme, output VAT will be accounted for two months later than at present since the scheme will result in the tax point becoming the date that payment is received from customers. 1

(4) The recovery of input VAT on expenses will not be affected as these are paid in cash. 1

(5) With the annual accounting scheme, the reduced administration in only having to file one VAT return each year should save on overtime costs. 1

6

(ii) Supplier situated outside the European Union

(1) Clueless Ltd will have to pay VAT of £4,400 (22,000 at 20%) to HM Revenue and Customs at the time of importation. 1

(2) This will then be reclaimed as input VAT on the VAT return for the period during which the machinery is imported. 1

Supplier situated elsewhere within the European Union

(1) VAT will have to be accounted for according to the date of acquisition. This will be the earlier of the date that a VAT invoice is issued or the 15th day of the month following the month in which the machinery comes into the UK. 1

(2) The VAT charged of £4,400 will be declared on Clueless Ltd's VAT return as output VAT, but will then be reclaimed as input VAT on the same VAT return. This is known as the reverse charge procedure. 1

4

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3 **(a)** (1) When a limited company has a capital loss, it is first set off against any chargeable gains arising in the same accounting period. 1½

(2) Any remaining capital loss is then carried forward and set off against the first available chargeable gains of future accounting periods. 1½

3

Marks

(b) **Acebook Ltd – Chargeable gains for the year ended 31 December 2011**

Oogle plc

Share pool	**Number**	**Cost**	**Indexed cost**	
		£	**£**	
Purchase June 2003	8,000	25,200	25,200	½
Bonus issue October 2006				
8,000 x 2/1	16,000			1
	24,000			
Indexation to February 2008				
25,200 x 0·166			4,183	1
Rights issue February 2008				
24,000 x 1/5 = 4,800 x £4·30	4,800	20,640	20,640	1½
	28,800	45,840	50,023	
Indexation to March 2011				
50,023 x 0·100			5,002	1
			55,025	
Disposal March 2011	(28,800)	(45,840)	(55,025)	

	£	
Disposal proceeds (28,800 x 3·20)	92,160	1
Indexed cost	(55,025)	1
Chargeable gain	37,135	

Land

	£	
Disposal proceeds	192,000	½
Indexed cost	(153,600)	1½
Enhancement expenditure	(23,040)	1
	15,360	

(1) The cost relating to the three acres of land sold is £153,600 (196,000 x 192,000/245,000 (192,000 + 53,000)).

(2) The cost of clearing and levelling the land is enhancement expenditure. The cost relating to the three acres of land sold is £23,040 (29,400 x 192,000/245,000).

Investment property

(1) The insurance proceeds not reinvested of £16,600 (189,000 – 172,400) are an immediate chargeable gain for the year ended 31 December 2011. 2

Tutorial note: *The balance of the gain of £34,000 (189,000 – 138,400 = 50,600 – 16,600) is deferred by deducting it from the cost of the replacement property.* 12

15

Marks

4 Sophia Wong

(a) (i) Profits withdrawn as director's remuneration

(1) Employer's class 1 NIC will be £8,844 (80,000 – 71,156). 1

(2) Sophia's income tax liability for 2011–12 will be:

	£	
Director's remuneration	71,156	
Personal allowance	(7,475)	½
Taxable income	63,681	
Income tax		
£		
35,000 at 20%	7,000	½
28,681 at 40%	11,472	½
63,681		
Income tax liability	18,472	

(3) Sophia's employee class 1 NIC for 2011–12 will be £4,804 ((42,475 – 7,225 = 35,250 at 12%) + (71,156 – 42,475 = 28,681 at 2%)). 1½

(4) There is no corporation tax liability for the new company as the profits are entirely withdrawn as director's remuneration. 1

(5) The total tax and NIC cost if all of the new company's profits are withdrawn as director's remuneration is £32,120 (8,844 + 18,472 + 4,804), which is £6,057 (32,120 – 26,063) more than the cost on a self-employed basis. 1

6

(ii) Profits withdrawn as dividends

(1) There will be no class 1 NIC. ½

(2) The corporation tax liability of the new company for the year ended 5 April 2012 will be £16,000 (80,000 – 64,000). 1

(3) The income tax payable by Sophia for 2011–12 will be:

	£	
Dividends (64,000 x 100/90)	71,111	½
Personal allowance	(7,475)	½
Taxable income	63,636	
Income tax		
£		
35,000 at 10%	3,500	½
28,636 at 32·5%	9,307	½
63,636		
Income tax liability	12,807	
Tax suffered at source (63,636 at 10%)	(6,364)	½
Income tax payable	6,443	

(4) The total tax and NIC cost if all of the new company's profits are withdrawn as dividends is £22,443 (16,000 + 6,443), which is £3,620 (26,063 – 22,443) less than the cost on a self-employed basis. 1

5

(b) (i) (1) There will be no CGT liability for 2011–12 as the consideration for the business is entirely in the form of shares. 1

(2) The chargeable gain of £150,000 (150,000 – nil) will be deducted from the base cost of the shares in the new company. 1

2

		Marks
(ii)	(1) If £50,000 of the consideration is in the form of cash, then £50,000 (150,000 x 50,000/150,000 (100,000 + 50,000)) of the gain will be chargeable during 2011–12.	1
	(2) The chargeable gain of £50,000 will fully utilise Sophia's annual exempt amount of £10,600 for 2011–12, and the brought forward capital losses of £39,400. This means that £50,000 of the consideration has been taken tax free.	½ ½
		2
		15

5 (a) Rosie Rohan

Annual allowances

(1) The unused annual allowance for 2007–08 cannot be brought forward as this is more than three years prior to 2011–12. ½

(2) Rosie was a member of a pension scheme for 2010–11, so the full annual allowance for that year is available. ½

(3) She has unused allowances of £9,000 (50,000 – 41,000) from 2008–09, £24,000 (50,000 – 26,000) from 2009–10, and £50,000 from 2010–11, so the available annual allowances for 2011–12 are therefore £133,000 (50,000 + 9,000 + 24,000 + 50,000). 2

Tax relief

(1) Personal pension contributions will be made net of basic rate tax. ½

(2) Higher and additional rate tax relief will be given by extending Rosie's basic and higher rate tax bands for 2011–12 by the gross amount of the pension contributions. 1

Excess contributions

(1) If pension contributions are made in excess of the available annual allowances, then there will be an annual allowance charge. ½

(2) This charge will be subject to income tax at Rosie's marginal rate(s) of income tax. 1

6

(b) Sam Shire

(1) Since Sam has already invested £4,000 into a cash ISA, he can invest a maximum of £6,680 (10,680 – 4,000) into a stocks and shares ISA for 2011–12. 1

(2) Dividend income received within a stocks and shares ISA is exempt from income tax, whilst chargeable gains are exempt from capital gains tax. 1

2

(c) Tom Tirith

(i) (1) Inheritance tax (IHT) paid by donee (the trust)

	£	
Value transferred	450,000	
Annual exemption 2011–12	(3,000)	½
Gross chargeable transfer	447,000	
IHT liability 325,000 at nil%		
122,000 at 20%	24,400	1

(2) IHT paid by donor (Tom)

	£	
Net chargeable transfer	447,000	
IHT liability 325,000 at nil%		
122,000 x 20/80	30,500	½
Gross chargeable transfer	477,500	1
		3

Tutorial note: *The potentially exempt transfer made on 20 December 2010 utilises the annual exemption for 2010–11.*

Marks

(ii) Additional liability arising on death if donor (Tom) pays the tax

	£	
Gross chargeable transfer (from (i)(2) above)	477,500	½
IHT liability 131,000 at nil% (working)	0	W
346,500 at 40%	138,600	½
Taper relief reduction – 40%	(55,440)	1
	83,160	
IHT already paid	(30,500)	½
Additional liability	52,660	

Working – Available nil rate band

(1) The potentially exempt transfer made on 20 December 2010 will utilise £194,000 (200,000 less annual exemptions for 2010–11 and 2009–10) of the nil rate band of £325,000 for 2016–17. 1

(2) Therefore only £131,000 (325,000 – 194,000) is available against the chargeable lifetime transfer to the trust. ½

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