Fundamentals Level – Skills Module

Taxation
(United Kingdom)

Tuesday 3 December 2013

Paper F6 (UK)

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 2–4.

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

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 – £34,370	20	10
Higher rate	£34,371 to £150,000	40	32·5
Additional rate	£150,001 and over	50	42·5

A starting rate of 10% applies to savings income where it falls within the first £2,710 of taxable income.

Personal allowance

Personal allowance	Standard	£8,105
Personal allowance	65 – 74	£10,500
Personal allowance	75 and over	£10,660
Income limit for age related allowances		£25,400
Income limit for standard personal allowance		£100,000

Car benefit percentage

The relevant base level of CO_2 emissions is 100 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 99 grams per kilometre	10%
100 grams per kilometre	11%

Car fuel benefit

The base figure for calculating the car fuel benefit is £20,200.

Individual savings accounts (ISAs)

The overall investment limit is £11,280, of which £5,640 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 110 grams per kilometre	100
CO_2 emissions between 111 and 160 grams per kilometre	18
CO_2 emissions over 160 grams per kilometre	8
Annual investment allowance	
First £25,000 of expenditure	100

Corporation tax

Financial year	**2010**	**2011**	**2012**
Small profits rate	21%	20%	20%
Main rate	28%	26%	24%
Lower limit	£300,000	£300,000	£300,000
Upper limit	£1,500,000	£1,500,000	£1,500,000
Standard fraction	7/400	3/200	1/100

Marginal relief

Standard fraction x (U – A) x N/A

Value added tax (VAT)

Standard rate	20%
Registration limit	£77,000
Deregistration limit	£75,000

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		£10,600
Entrepreneurs' relief	– Lifetime limit	£10,000,000
	– Rate of tax	10%

National insurance contributions
(Not contracted out rates)

			%
Class 1	Employee	£1 – £7,605 per year	Nil
		£7,606 – £42,475 per year	12·0
		£42,476 and above per year	2·0
Class 1	Employer	£1 – £7,488 per year	Nil
		£7,489 and above per year	13·8
Class 1A			13·8
Class 2		£2·65 per week	
		Small earnings exemption	£5,595
Class 4		£1 – £7,605 per year	Nil
		£7,606 – £42,475 per year	9·0
		£42,476 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%

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Question 1 begins on page 6.

ALL FIVE questions are compulsory and MUST be attempted

1 **(a)** On 6 April 2012, Richard Feast, aged 43, commenced in self-employment, running a restaurant. Richard's statement of profit or loss for the year ended 5 April 2013 is as follows:

	Note	£	£
Gross profit			73,440
Expenses			
Motor expenses	1	7,660	
Property expenses	2	16,200	
Repairs and renewals	3	6,420	
Other expenses	4	10,960	
			(41,240)
Net profit			32,200

Note 1 – Motor expenses

Motor expenses are as follows:

	£
Cost of running Richard's motor car	4,710
Cost of running a motor car used by the restaurant's chef	2,670
Parking fines incurred by Richard	280
	7,660

Richard's motor car is used 70% for private journeys, and the chef's motor car is used 20% for private journeys.

Note 2 – Property expenses

Richard lives in an apartment which is situated above the restaurant, and one-fifth of the total property expenses of £16,200 relate to this apartment.

Note 3 – Repairs and renewals

Repairs and renewals are as follows:

	£
Decorating the restaurant	5,100
Decorating the apartment	1,320
	6,420

The property was in a usable state when it was purchased.

Note 4 – Other expenses

The figure of £10,960 for other expenses includes legal fees of £2,590 in connection with the purchase of the restaurant property. The remaining expenses are all allowable.

Additional information

Plant and machinery

The following motor cars were purchased during the year ended 5 April 2013:

	Date of purchase	Cost £	CO_2 emission rate
Motor car [1]	6 April 2012	14,000	124 grams per kilometre
Motor car [2]	6 April 2012	16,800	138 grams per kilometre

Motor car [1] is used by Richard, and motor car [2] is used by the restaurant's chef.

Required:

Calculate Richard Feast's tax adjusted trading profit for the year ended 5 April 2013.

Notes:

1. **Your computation should commence with the net profit figure of £32,200, and should list all of the items referred to in notes (1) to (4), indicating by the use of zero (0) any items which do not require adjustment.**
2. **In answering this part of the question you are not expected to take account of any of the information provided in parts (b), (c) or (d) below.** (7 marks)

(b) Richard had three employees working for him in his restaurant during the tax year 2012–13 as follows:

(1) A chef who was employed throughout the tax year 2012–13 on a gross annual salary of £46,000. The chef was provided with a petrol powered motor car (see the plant and machinery information in part (a) above) throughout the tax year. The list price of the motor car is the same as its cost. Richard did not provide any fuel for private journeys.

(2) A part-time waitress who was employed for 20 hours per week throughout the tax year 2012–13 on a gross annual salary of £7,400.

(3) An assistant chef who was employed for eight months from 6 August 2012 to 5 April 2013 on a gross monthly salary of £2,200.

Required:

Calculate the employers' class 1 and class 1A national insurance contributions which Richard Feast would have incurred in respect of his employees' earnings and benefit for the tax year 2012–13.

Note: You are not expected to calculate the national insurance contributions suffered by the employees or by Richard in respect of his self-employment. (6 marks)

(c) Richard has not previously filed a self-assessment tax return, and therefore wants to know when he will have to file his return for the tax year 2012–13. He is not sure whether to file a paper tax return or to file the return online.

As this will be his first self-assessment tax return, Richard is concerned that HM Revenue and Customs might carry out a compliance check.

Required:

(i) Advise Richard Feast of the latest dates by which his self-assessment tax return for the tax year 2012–13 should be filed in order to avoid a penalty. (2 marks)

(ii) State the period during which HM Revenue and Customs will have to notify Richard Feast if they intend to carry out a compliance check in respect of his self-assessment tax return for the tax year 2012–13, and the possible reasons why such a check would be made.

Note: You should assume that Richard will file his tax return by the filing date. (3 marks)

(d) Richard's sales since the commencement of trading on 6 April 2012 have been as follows:

April to July 2012	£10,500 per month
August to November 2012	£14,000 per month
December 2012 to March 2013	£21,500 per month

These figures are stated exclusive of value added tax (VAT). Richard's sales are all standard rated.

As a trainee Chartered Certified Accountant you have advised Richard in writing that he should be registered for VAT, but he has refused to register because he thinks his net profit is insufficient to cover the additional cost which would be incurred.

Required:

(i) **Explain from what date Richard Feast was required to be compulsorily registered for value added tax (VAT) and the VAT implications of continuing to trade after this date without registering.**

Note: You are not expected to explain the VAT penalties arising from late VAT registration. (4 marks)

(ii) **Briefly explain from an ethical viewpoint the issues you, as a trainee Chartered Certified Accountant, should consider in order for your firm to deal with Richard Feast's refusal to register for VAT.** (2 marks)

(iii) **State the circumstances in which a retailer can issue a simplified (or less detailed) VAT invoice, when such an invoice should be issued, and FIVE pieces of information which such an invoice must show where the supply is entirely standard rated.** (4 marks)

(iv) **Explain how and when VAT registered businesses have to submit their quarterly VAT returns and pay any related VAT liability.**

Note: You are not expected to cover annual VAT returns, the election for monthly returns or substantial traders. (2 marks)

(30 marks)

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Question 2 begins on page 10.

2 Softapp Ltd is a software developer. The company's summarised statement of profit or loss for the year ended 31 March 2013 is as follows:

	Note	£
Operating profit	1 & 2	519,300
Other income		
Income from property	3	36,700
Loan interest receivable	4	8,100
Profit on disposal of shares	5	64,900
Finance costs		
Interest payable	6	(67,200)
Profit before taxation		561,800

Note 1 – Operating profit

The operating profit excludes the results from Softapp Ltd's overseas branch (see note (2) below).

Depreciation of £10,170 and amortisation of leasehold property of £2,500 have been deducted in arriving at the operating profit of £519,300.

Note 2 – Overseas branch

Softapp Ltd's overseas branch made a trading profit of £25,600 for the year ended 31 March 2013. Overseas corporation tax of £5,500 was paid in respect of the overseas branch's trading profit. Softapp Ltd has not made an election to exempt the profits of its overseas branch.

This is the first time that the overseas branch has made a profit, having made a trading loss in each of the previous five years of operation.

Note 3 – Income from property

Since 1 November 2012, Softapp Ltd has let out one floor of a freehold office building which is surplus to requirements. The income from property figure of £36,700 is made up of the following income and expenditure:

Date received/paid		**£**
23 October 2012	Advertising for tenants	(600)
25 October 2012	Security deposit of two months rent	10,400
25 October 2012	Rent for the quarter ended 31 January 2013	15,600
1 November 2012	Insurance for the year ended 31 October 2013	(1,200)
2 February 2013	Rent for the quarter ended 30 April 2013	15,600
20 March 2013	Repairs following a flood	(12,800)
4 April 2013	Insurance claim in respect of the flood damage	9,700
		36,700

Note 4 – Loan interest receivable

The loan was made for non-trading purposes on 1 July 2012. Loan interest of £5,600 was received on 31 December 2012, and interest of £2,500 was accrued at 31 March 2013.

Note 5 – Profit on disposal of shares

The profit on disposal of shares is in respect of the sale of Softapp Ltd's entire (2%) shareholding in Networked plc on 28 February 2013. The disposal resulted in a chargeable gain of £61,300. This figure is after taking account of indexation.

Note 6 – Interest payable

The interest payable is in respect of the company's 4% debenture loan stock. Interest of £33,600 was paid on 30 September 2012 and again on 31 March 2013. The loan stock was used to finance the company's trading activities.

Additional information

Leasehold property

On 1 January 2013, Softapp Ltd acquired a leasehold office building, paying a premium of £100,000 for the grant of a ten-year lease. The office building was used for business purposes by Softapp Ltd throughout the period 1 January to 31 March 2013.

Plant and machinery

The tax written down value of Softapp Ltd's plant and machinery as at 1 April 2012 was nil.

During October 2012 Softapp Ltd had an extension constructed adjacent to its existing freehold office building, which is used by the company's employees as a staff room. The total cost of £100,000 is made up as follows:

	£
Integral to the building	
Building costs of extension	61,000
Heating system	3,600
Ventilation system	4,600
Not integral to the building	
Furniture and furnishings	29,400
Refrigerator and microwave cooker	1,400
	100,000

The full annual investment allowance of £25,000 is available to Softapp Ltd.

Subsidiary company

Softapp Ltd owns 100% of the ordinary share capital of Byte-Size Ltd. On 4 March 2013, Byte-Size Ltd disposed of its entire (1%) shareholding in Cloud Ltd, and this resulted in a capital loss of £48,200. For the year ended 31 March 2013, Byte-Size Ltd made no other disposals and will pay corporation tax at the small profits rate of 20%.

Required:

(a) Calculate Softapp Ltd's corporation tax liability for the year ended 31 March 2013 after taking account of double taxation relief.

Notes:
1. Your computation should commence with the operating profit figure of £519,300.
2. In answering this part of the question, you should assume that no election is made between Softapp Ltd and Byte-Size Ltd in respect of chargeable gains. (20 marks)

(b) Advise Softapp Ltd as to the joint election it should make with Byte-Size Ltd, regarding their respective chargeable gain and capital loss, and explain how such an election will reduce the group's overall corporation tax liability for the year ended 31 March 2013.

Note: You are not expected to perform any calculations. (3 marks)

(c) State what factors Softapp Ltd should take into account when deciding whether to make an election to exempt the profits of its overseas branch. (2 marks)

(25 marks)

3 **(a)** On 10 June 2012, Delroy made a gift of 25,000 £1 ordinary shares in Dub Ltd, an unquoted trading company, to his son, Grant. The market value of the shares on that date was £240,000. Delroy had subscribed for the 25,000 shares in Dub Ltd at par on 1 July 2002. Delroy and Grant have elected to hold over the gain as a gift of a business asset.

Grant sold the 25,000 shares in Dub Ltd on 18 September 2012 for £240,000.

Dub Ltd has a share capital of 100,000 £1 ordinary shares. Delroy was the sales director of the company from its incorporation on 1 July 2002 until 10 June 2012. Grant has never been an employee or a director of Dub Ltd.

For the tax year 2012–13 Delroy and Grant are both higher rate taxpayers. Neither of them has made any other disposals of assets during the year.

Required:

(i) Calculate Grant's capital gains tax liability for the tax year 2012–13. (3 marks)

(ii) Explain why it would have been beneficial for capital gains tax purposes if Delroy had instead sold the 25,000 shares in Dub Ltd himself for £240,000 on 10 June 2012, and then gifted the cash proceeds to Grant. (2 marks)

(b) On 12 February 2013, Marlon sold a house for £497,000, which he had owned individually. The house had been purchased on 22 October 1997 for £146,000. Marlon incurred legal fees of £2,900 in connection with the purchase of the house, and legal fees of £3,700 in connection with the disposal.

Throughout the period of ownership the house was occupied by Marlon and his wife, Alvita, as their main residence. One-third of the house was always used exclusively for business purposes by the couple. Entrepreneurs' relief is not available in respect of this disposal.

For the tax year 2012–13 Marlon is a higher rate taxpayer, but Alvita did not have any taxable income. Neither of them has made any other disposals of assets during the year.

Required:

(i) Calculate Marlon's chargeable gain for the tax year 2012–13. (3 marks)

(ii) Calculate the amount of capital gains tax which could have been saved if Marlon had transferred 50% ownership of the house to Alvita prior to its disposal. (2 marks)

(c) On 2 April 2013, Leroy sold 12,000 £1 ordinary shares in Jerk-Chic plc for £83,400. He has had the following transactions in the shares of the company:

1 March 2004	Purchased 20,000 shares for £19,800
20 July 2008	Purchased 8,000 shares for £27,800
23 October 2012	Made a gift of 4,000 shares

The gift of 4,000 shares on 23 October 2012 was to Leroy's daughter. On that date the shares were quoted on the Stock Exchange at £7·80–£8·20. There were no recorded bargains. Holdover relief is not available in respect of this disposal.

Neither disposal of Jerk-Chic plc shares during the tax year 2012–13 qualifies for entrepreneurs' relief.

For the tax year 2012–13 Leroy is a higher rate taxpayer, and will remain so for the tax year 2013–14. Leroy regularly makes disposals of other investments, so no annual exempt amount is available for either of the tax years 2012–13 or 2013–14.

Required:

(i) Calculate the chargeable gains arising from Leroy's disposals of Jerk-Chic plc shares during the tax year 2012–13. (4 marks)

(ii) State why it would have been beneficial if Leroy had delayed the sale of the 12,000 shares in Jerk-Chic plc until 6 April 2013. (1 mark)

(15 marks)

4 **(a)** Fang commenced self-employment on 1 August 2010. She has a trading profit of £45,960 for the year ended 31 July 2011, and a trading profit of £39,360 for the year ended 31 July 2012.

Required:

(i) Calculate the amount of trading profit which will have been assessed on Fang for each of the tax years 2010–11, 2011–12 and 2012–13, and state the amount of any overlap profit. (3 marks)

(ii) Explain how Fang would have obtained relief for trading expenditure incurred prior to 1 August 2010 and for computer equipment which Fang already owned which was brought into business use on 1 August 2010. (2 marks)

(b) Hong has been in self-employment since 2001, preparing accounts to 5 April. For the year ended 5 April 2013 she made a trading loss of £45,800, and has claimed this against her total income and chargeable gain for the tax year 2011–12.

For the year ended 5 April 2012 Hong made a trading profit of £29,700. She also has a property business profit of £3,900 for the tax year 2011–12. Hong has an unused trading loss of £2,600 brought forward from the tax year 2010–11.

During the tax year 2011–12 Hong disposed of an investment property and this resulted in a chargeable gain (before the annual exempt amount) of £17,800. Hong has unused capital losses of £6,200 brought forward from the tax year 2009–10.

Required:

After taking account of the loss relief claims made, calculate Hong's taxable income and taxable gain for the tax year 2011–12, and state the amount of any trading loss carried forward.

Note: You should assume that the tax allowances for the tax year 2012–13 apply throughout. (5 marks)

(c) Kang, Ling and Ming have been in partnership since 2003, preparing accounts to 30 June. Ming left the partnership on 31 October 2011. Profits have always been shared equally.

The partnership had a trading profit of £148,800 for the year ended 30 June 2011, and a profit of £136,800 for the year ended 30 June 2012. Each partner has unused overlap profits brought forward of £29,400.

Required:

Calculate the trading income assessments of Kang, Ling and Ming for each of the tax years 2011–12 and 2012–13. (5 marks)

(15 marks)

5 Afiya died on 29 November 2012. She had made the following gifts during her lifetime:

(1) On 13 April 2011, Afiya made a cash gift of £32,000 to her husband.

(2) On 2 May 2011, Afiya made cash gifts to her three nieces. The first niece was given £100, the second niece was given £200, and the third niece was given £400.

(3) On 14 September 2011, Afiya made a gift of 6,500 £1 ordinary shares in Cassava Ltd, an unquoted investment company, to her daughter.

Before the transfer Afiya owned 8,000 shares out of Cassava Ltd's issued share capital of 10,000 £1 ordinary shares. On 14 September 2011, Cassava Ltd's shares were worth £3 each for a holding of 15%, £7 each for a holding of 65%, and £8 each for a holding of 80%.

(4) On 27 January 2012, Afiya made a cash gift of £400,000 to a trust. Afiya paid the inheritance tax arising from this gift.

On 29 November 2012, Afiya's estate was valued at £620,000. Under the terms of her will Afiya left £150,000 to her husband, a specific legacy of £40,000 to her sister, and the residue of the estate to her children.

The nil rate band for the tax year 2011–12 is £325,000.

Required:

(a) Calculate the inheritance tax which will be payable as a result of Afiya's death. (12 marks)

(b) State the due dates of payment for the inheritance tax arising from the gift made to the trust on 27 January 2012.

Note: Your answer should cover both the lifetime inheritance tax paid and the additional tax payable as a result of Afiya's death. (2 marks)

(c) Calculate the amount of the inheritance which will be received by Afiya's children. (1 mark)

(15 marks)

End of Question Paper