

Fundamentals Level – Skills Module

# Taxation (United Kingdom)

March/June 2018 – Sample Questions



F6 UK ACCA

**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 – £33,500	20%	7.5%
Higher rate	£33,501 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	£11,500
Transferable amount	£1,150
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	9%
51 grams to 75 grams per kilometre	13%
76 grams to 94 grams per kilometre	17%
95 grams per kilometre	18%

### **Car fuel benefit**

The base figure for calculating the car fuel benefit is £22,600.

### **Individual savings accounts (ISAs)**

The overall investment limit is £20,000.

### **Property income**

Basic rate restriction applies to 25% of finance costs.

### **Pension scheme limit**

Annual allowance	£40,000
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

### **Cash basis accounting**

Revenue limit	£150,000
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### **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 – Financial year 2017	19%
– Financial year 2016	20%
– Financial year 2015	20%
Profit threshold	£1,500,000

### Value added tax (VAT)

Standard rate	20%
Registration limit	£85,000
Deregistration limit	£83,000

### Inheritance tax: tax rates

Nil rate band	£325,000
Residence nil rate band	£100,000
Rates of tax on 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		£11,300
Entrepreneurs' relief – Lifetime limit		£10,000,000
– Rate of tax		10%

### National insurance contributions

Class 1	Employee	£1 – £8,164 per year	Nil
		£8,165 – £45,000 per year	12%
		£45,001 and above per year	2%
Class 1	Employer	£1 – £8,164 per year	Nil
		£8,165 and above per year	13.8%
		Employment allowance	£3,000
Class 1A		13.8%	
Class 2		£2.85 per week	
		Small profits threshold	£6,025
Class 4		£1 – £8,164 per year	Nil
		£8,165 – £45,000 per year	9%
		£45,001 and above per year	2%

### Rates of interest (assumed)

Official rate of interest	2.5%
Rate of interest on underpaid tax	2.75%
Rate of interest on overpaid tax	0.50%

**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 25 March 2018.

Kaya is the managing director of, and 100% shareholder in, Hopi Ltd. Hopi Ltd has no other employees.

For the year ended 5 April 2018, Hopi Ltd's tax adjusted trading profit, after taking account of director's remuneration and employer's class 1 national insurance contributions (NICs), is forecast to be £80,000. Hopi Ltd has already paid Kaya gross director's remuneration of £30,000 and dividends of £45,000 for the tax year 2017–18. Kaya does not have any other income. Based on these figures, the tax and NICs for Kaya and Hopi Ltd for the year ended 5 April 2018 will be:

	£
<b>Kaya</b>	
Income tax	14,200
Employee class 1 NICs	2,620
<b>Hopi Ltd</b>	
Employer class 1 NICs	3,013
Corporation tax	15,200

However, on 31 March 2018, Kaya is planning to pay herself a bonus of £25,000, but is unsure whether to take this as additional director's remuneration (the gross remuneration will be £25,000) or as an additional dividend.

**Required:**

**Calculate the revised tax and NICs for Kaya and Hopi Ltd for the year ended 5 April 2018 if, on 31 March 2018, Kaya pays herself the bonus of £25,000 (1) as additional director's remuneration or (2) as an additional dividend.**

**Notes:**

1. You are expected to calculate the revised income tax liability and NICs for Kaya and the revised corporation tax liability and NICs for Hopi Ltd under each of options (1) and (2).
2. You should assume that the rate of corporation tax remains unchanged.

**(10 marks)**

**32** Up to and including the tax year 2014–15, Danh was always automatically treated as not resident in the UK, spending fewer than 46 days in the UK each year. Danh knows that for the tax year 2017–18, he will automatically be treated as resident in the UK, but is unsure of his residence status for the tax years 2015–16 and 2016–17. For these two tax years, Danh was neither automatically not resident in the UK nor automatically resident. For both of these tax years, Danh spent 100 days in the UK, with the remainder of each tax year spent in the same overseas country. Throughout both tax years, Danh had a property in the UK and stayed there on the 100 days which he spent in the UK. Danh also did substantive work in the UK during both tax years. He does not have any close family in the UK.

On 6 August 2017, Danh commenced self-employment as a sole trader. In addition, on 6 September 2017, Danh joined an existing partnership run by Ebele and Fai. The following information is available for the tax year 2017–18:

#### Self-employment

(1) Danh's statement of profit or loss for the eight-month period ended 5 April 2018 is:

	Note	£
Income		96,400
Expenses		
Depreciation		(2,300)
Motor expenses	2	(3,300)
Professional fees	3	(1,800)
Other expenses (all allowable)		(18,800)
Net profit		<u>70,200</u>

(2) During the eight-month period ended 5 April 2018, Danh drove a total of 12,000 miles, of which 4,000 were for private journeys.

(3) The figure for professional fees consists of £340 for accountancy and £1,460 for legal fees in connection with the grant of a new five-year lease for business premises.

(4) Danh runs his business using one of the six rooms in his private house as an office. The total running costs of the house for the eight-month period ended 5 April 2018 were £4,200. No deduction has been made for the cost of using the office in calculating the net profit of £70,200.

(5) The only item of plant and machinery owned by Danh is his motor car. This was purchased on 6 August 2017 for £14,800, and has a CO<sub>2</sub> emission rate of 110 grams per kilometre.

#### Partnership loss

(1) For the year ended 5 April 2018, the partnership made a tax-adjusted trading loss of £12,600. Until 5 September 2017, profits and losses were shared 60% to Ebele and 40% to Fai. Since 6 September 2017, profits and losses have been shared 20% to Danh, 50% to Ebele and 30% to Fai.

(2) Danh will claim to relieve his share of the partnership's loss against his total income for the tax year 2017–18.

(3) During the tax year 2017–18, Danh paid interest of £875 (gross) on a personal loan taken out to purchase his share in the partnership.

#### Property income

(1) On 6 April 2017, Danh purchased a freehold house which was then let out. The total amount of rent receivable during the tax year 2017–18 was £14,400.

(2) Danh partly financed the purchase of the property with a repayment mortgage, paying mortgage interest of £5,000 during the tax year 2017–18.

(3) The other expenditure on the property for the tax year 2017–18 amounted to £1,480, and this is all allowable.

**Required:**

(a) Explain whether Danh was treated as resident or not resident in the UK for each of the tax years 2015–16 and 2016–17. (3 marks)

(b) Calculate Danh's income tax liability for the tax year 2017–18.

Note: When calculating Danh's trading profit from self-employment for the eight-month period ended 5 April 2018, your computation should commence with the net profit figure of £70,200, indicating by the use of zero (0) any items which do not require adjustment. (12 marks)

**(15 marks)**

**33** Solo Ltd's results for the previous two periods of trading are:

	Year ended 31 December 2016	Three-month period ended 31 March 2017
	£	£
Trading profit	35,900	12,300
Property business income	12,100	4,200
Chargeable gains/(capital losses)	(3,300)	(2,100)
Qualifying charitable donations	(1,200)	(1,600)

The following information is available in respect of the year ended 31 March 2018:

#### Trading loss

The tax-adjusted trading loss based on the draft statement of profit or loss for the year ended 31 March 2018 is £151,300. This figure is **before** making any adjustments required for:

- (1) A premium which was paid to acquire a leasehold office building on an eight-year lease.
- (2) Capital allowances.

#### Premium paid to acquire leasehold office building

On 1 April 2017, Solo Ltd acquired a leasehold office building, paying a premium of £20,000 for the grant of an eight-year lease. The office building was used for business purposes by Solo Ltd throughout the year ended 31 March 2018.

#### Plant and machinery

The tax written down value of the plant and machinery main pool as at 1 April 2017 was £0. During the year ended 31 March 2018, Solo Ltd sold equipment for £4,300. The equipment was originally purchased during the year ended 31 March 2013 for £22,400, with this expenditure qualifying for the 100% annual investment allowance.

#### Property business income

Solo Ltd lets out a warehouse which is surplus to requirements. The building was empty from 1 April to 31 July 2017, but was let from 1 August 2017 onwards. The following income and expenditure was received or incurred during the year ended 31 March 2018:

Date received/paid	£
1 April 2017      Insurance for the year ended 31 March 2018	(920)
1 August 2017    Rent for the six months ended 31 January 2018	7,800
1 August 2017    Security deposit equal to two months' rent	2,600
1 March 2018     Rent for the six months ended 31 July 2018	7,800

#### Disposal of shareholding in Multiple plc

On 12 December 2017, Solo Ltd sold 6,500 £1 ordinary shares in Multiple plc for £31,200. Solo Ltd had originally purchased 20,000 shares (less than a 1% shareholding) in Multiple plc on 18 June 2006 for £27,000, and purchased a further 1,000 shares on 8 December 2017 for £4,600. Retail price indices (RPIs) are:

June 2006	198.5
December 2017	278.1



**Required:**

- (a) Calculate Solo Ltd's revised tax-adjusted trading loss for the year ended 31 March 2018.

Note: You should assume that the company claims the maximum available capital allowances. (3 marks)

- (b) On the basis that Solo Ltd claims relief for its trading loss against its total profits for the year ended 31 March 2018, prepare a corporation tax computation for this year showing taxable total profits. (8 marks)

- (c) On the basis that Solo Ltd claims relief for the remainder of its trading loss as early as possible, calculate the company's taxable total profits for the year ended 31 December 2016 and the three-month period ended 31 March 2017. (4 marks)

**(15 marks)**

**End of Question Paper**