

Fundamentals Level – Skills Module

Taxation (United Kingdom)

Monday 6 December 2010

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

Paper F6 (UK)

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		
		%
Basic rate	£1 – £37,400	20
Higher rate	£37,401 and above	40

A starting rate of 10% applies to savings income where it falls within the first £2,440 of taxable income.

Personal allowance		
Personal allowance	Standard	£6,475
Personal allowance	65 – 74	£9,490
Personal allowance	75 and over	£9,640
Income limit for age related allowances		£22,900

Car benefit percentage

The base level of CO₂ emissions is 135 grams per kilometre. A lower rate of 10% applies to petrol cars with CO₂ emissions of 120 grams per kilometre or less.

Car fuel benefit

The base figure for calculating the car fuel benefit is £16,900.

Pension scheme limits

Annual allowance £245,000

The maximum contribution that can qualify for tax relief without any earnings is £3,600.

Authorised mileage allowances: cars

Up to 10,000 miles	40p
Over 10,000 miles	25p

Capital allowances: rate of allowances

	%
Plant and machinery	
Main pool	
– First year allowance	40
– Writing down allowance	20
Special rate pool	10
The first-year allowance of 40% applies to expenditure during the period 6 April 2009 to 5 April 2010 (1 April 2009 to 31 March 2010 for limited companies).	
Motor cars	
CO ₂ emissions up to 110 grams per kilometre	100
CO ₂ emissions between 111 and 160 grams per kilometre	20
CO ₂ emissions over 160 grams per kilometre	10
Annual investment allowance	
First £50,000 of expenditure	100
Industrial buildings	
Writing down allowance	2

Corporation tax

Financial year	2007	2008	2009
Small companies rate	20%	21%	21%
Full rate	30%	28%	28%
Lower limit	300,000	300,000	300,000
Upper limit	1,500,000	1,500,000	1,500,000
Marginal relief fraction	1/40	7/400	7/400

Marginal relief

$$(M - P) \times I/P \times \text{Marginal relief fraction}$$

Extended loss relief

Extended loss relief is capped at a maximum of £50,000. For limited companies it applies to loss making accounting periods ending between 24 November 2008 and 23 November 2010.

Value added tax (VAT)

Standard rate	– Up to 31 December 2009	15.0%
	– From 1 January 2010 onwards	17.5%
Registration limit		£68,000
Deregistration limit		£66,000

Capital gains tax

Rate of tax		18%
Annual exemption		£10,100
Entrepreneurs' relief – Lifetime limit		£1,000,000
– Relief factor		4/9ths

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

			%
Class 1	Employee	£1 – £5,715 per year	Nil
		£5,716 – £43,875 per year	11·0
		£43,876 and above per year	1·0
Class 1	Employer	£1 – £5,715 per year	Nil
		£5,716 and above per year	12·8
Class 1A			12·8
Class 2		£2·40 per week	
Class 4		£1 – £5,715 per year	Nil
		£5,716 – £43,875 per year	8·0
		£43,876 and above per year	1·0

Rates of interest (assumed)

Official rate of interest	4·75%
Rate of interest on underpaid tax	2·5%
Rate of interest on overpaid tax	0·0%

ALL FIVE questions are compulsory and MUST be attempted

- 1 On 31 December 2009 Joe Jones resigned as an employee of Firstly plc, and on 1 January 2010 commenced employment with Secondly plc. Joe was employed by both companies as a financial analyst. The following information is available for the tax year 2009–10:

Employment with Firstly plc

- (1) From 6 April 2009 to 31 December 2009 Joe was paid a salary of £11,400 per month. In addition to his salary, Joe was paid a bonus of £12,000 on 12 May 2009. He had become entitled to this bonus on 22 March 2009.
- (2) Joe contributed 6% of his monthly gross salary of £11,400 into Firstly plc's HM Revenue and Customs' registered occupational pension scheme.
- (3) On 1 May 2009 Firstly plc provided Joe with an interest free loan of £120,000 so that he could purchase a holiday cottage. Joe repaid £50,000 of the loan on 31 July 2009, and repaid the balance of the loan of £70,000 when he ceased employment with Firstly plc on 31 December 2009.
- (4) During the period from 6 April 2009 to 31 December 2009 Joe's three-year-old daughter was provided with a place at Firstly plc's workplace nursery. The total cost to the company of providing this nursery place was £11,400 (190 days at £60 per day).
- (5) During the period 6 April 2009 to 31 December 2009 Firstly plc paid gym membership fees of £1,050 for Joe.
- (6) Firstly plc provided Joe with a home entertainment system for his personal use costing £4,400 on 6 April 2009. The company gave the home entertainment system to Joe for free, when he left the company on 31 December 2009, although its market value at that time was £3,860.

Employment with Secondly plc

- (1) From 1 January 2010 to 5 April 2010 Joe was paid a salary of £15,200 per month.
- (2) During the period 1 January 2010 to 5 April 2010 Joe contributed a total of £3,000 (gross) into a personal pension scheme.
- (3) From 1 January 2010 to 5 April 2010 Secondly plc provided Joe with living accommodation. The property has an annual value of £10,400 and is rented by Secondly plc at a cost of £2,250 per month. On 1 January 2010 Secondly plc purchased furniture for the property at a cost of £16,320. The company pays for all of the running costs relating to the property, and for the period 1 January 2010 to 5 April 2010 these amounted to £1,900.
- (4) During the period 1 January 2010 to 5 April 2010 Secondly plc provided Joe with 13 weeks of childcare vouchers costing £100 per week. Joe used the vouchers to provide childcare for his three-year-old daughter at a registered nursery near to his workplace.
- (5) During the period 1 January 2010 to 5 April 2010 Joe used Secondly plc's company gym which is only open to employees of the company. The cost to Secondly plc of providing this benefit to Joe was £340.
- (6) During the period 1 January 2010 to 5 April 2010 Secondly plc provided Joe with a mobile telephone costing £560. The company paid for all of Joe's business and private telephone calls.

Required:

- (a) **Calculate Joe Jones' taxable income for the tax year 2009–10.** (17 marks)
- (b) (i) **Briefly explain the basis of calculating Joe Jones' PAYE tax code for the tax year 2009–10, and the purpose of this code;** (2 marks)
(ii) **For each of the PAYE forms P45, P60 and P11D, briefly describe the circumstances in which the form will be completed, state who will provide it, the information to be included, and the dates by which they should have been provided to Joe Jones for the tax year 2009–10.** (6 marks)

Note: your answer to both sub-parts (i) and (ii) should be confined to the details that are relevant to Joe Jones.

(25 marks)

- 2 (a) Neung Ltd is a UK resident company that runs a business providing financial services. The company's business is mainly based in the UK, but Neung Ltd also has two overseas branches. The company's summarised profit and loss account for the year ended 31 March 2010 is as follows:

	Note	£
Operating profit	1 & 2	324,100
Income from investments		
Loan interest	3	37,800
Dividends	4	54,000
Profit before taxation		<u>415,900</u>

Note 1 – Operating profit

The operating profit does not include the results from either of Neung Ltd's two overseas branches (see note (2) below).

Depreciation of £11,830 and amortisation of leasehold property of £7,000 have been deducted in arriving at the operating profit of £324,100.

Note 2 – Overseas branches

Neung Ltd's first overseas branch made a trading profit of £41,000 for the year ended 31 March 2010. No overseas corporation tax was paid on this profit.

The second overseas branch made a trading loss of £15,700 for the year ended 31 March 2010.

Note 3 – Loan interest receivable

The loan was made for non-trading purposes on 1 July 2009. Loan interest of £25,200 was received on 31 December 2009, and interest of £12,600 was accrued at 31 March 2010.

Note 4 – Dividends received

Neung Ltd holds shares in four UK resident companies as follows:

	Percentage shareholding	Status
Second Ltd	25%	Trading
Third Ltd	60%	Trading
Fourth Ltd	100%	Dormant
Fifth Ltd	100%	Trading

During the year ended 31 March 2010 Neung Ltd received a dividend of £37,800 from Second Ltd, and a dividend of £16,200 from Third Ltd. These figures were the actual cash amounts received.

Additional information

Leasehold property

On 1 April 2009 Neung Ltd acquired a leasehold office building, paying a premium of £140,000 for the grant of a 20-year lease. The office building was used for business purposes by Neung Ltd throughout the year ended 31 March 2010.

Plant and machinery

On 1 April 2009 the tax written down values of Neung Ltd's plant and machinery were as follows:

	£
Main pool	4,800
Motor car [1]	22,800
Special rate pool	12,700

The company purchased the following assets during the year ended 31 March 2010:

		£
19 July 2009	Motor car [2]	15,400
12 December 2009	Motor car [3]	28,600
20 December 2009	Ventilation system	62,000

Motor car [1] has a CO₂ emission rate of 220 grams per kilometre. Motor car [2] purchased on 19 July 2009 has a CO₂ emission rate of 242 grams per kilometre. Motor car [3] purchased on 12 December 2009 has a CO₂ emission rate of 148 grams per kilometre.

The ventilation system purchased on 20 December 2009 for £62,000 is integral to the freehold office building in which it was installed.

Required:

- (i) **State, giving reasons, which companies will be treated as being associated with Neung Ltd for corporation tax purposes;** (2 marks)
- (ii) **Calculate Neung Ltd's corporation tax liability for the year ended 31 March 2010;**
Note: you should assume that the whole of the annual investment allowance is available to Neung Ltd, and that the company wishes to maximise its capital allowances claim. (15 marks)
- (iii) **Advise Neung Ltd of the taxation disadvantages of converting its two overseas branches (see note (2)) into 100% overseas subsidiary companies.** (3 marks)
- (b) **Note that in answering this part of the question you are not expected to take account of any of the information provided in part (a) above.**

The following information is available in respect of Neung Ltd's value added tax (VAT) for the quarter ended 31 March 2010:

- (1) Invoices were issued for sales of £44,600 to VAT registered customers. Of this figure, £35,200 was in respect of exempt sales and the balance in respect of standard rated sales. The standard rated sales figure is exclusive of VAT.
- (2) In addition to the above, on 1 March 2010 Neung Ltd issued a VAT invoice for £8,000 plus VAT of £1,400 to a VAT registered customer. This was in respect of a contract for standard rated financial services that will be completed on 15 April 2010. The customer paid for the contracted services in two instalments of £4,700 on 31 March 2010 and 30 April 2010 respectively.
- (3) Invoices were issued for sales of £289,300 to non-VAT registered customers. Of this figure, £242,300 was in respect of exempt sales and the balance in respect of standard rated sales. The standard rated sales figure is inclusive of VAT.
- (4) The managing director of Neung Ltd is provided with free fuel for private mileage driven in her company motor car. During the quarter ended 31 March 2010 this fuel cost Neung Ltd £260. The relevant quarterly scale charge is £390. Both these figures are inclusive of VAT.

For the quarters ended 30 September 2008 and 30 June 2009 Neung Ltd was one month late in submitting its VAT returns and in paying the related VAT liabilities. All of the company's other VAT returns have been submitted on time.

Required:

- (i) **Calculate the amount of output VAT payable by Neung Ltd for the quarter ended 31 March 2010;** (4 marks)
- (ii) **Advise Neung Ltd of the default surcharge implications if it is one month late in submitting its VAT return for the quarter ended 31 March 2010 and in paying the related VAT liability;** (3 marks)
- (iii) **State the circumstances in which Neung Ltd is and is not required to issue a VAT invoice, and the period during which such an invoice should be issued.** (3 marks)

(30 marks)

- 3 Lim Lam is the controlling shareholder and managing director of Mal-Mil Ltd, an unquoted trading company that provides support services to the oil industry.

Lim Lam

Lim disposed of the following assets during the tax year 2009–10:

- (1) On 8 April 2009 Lim sold five acres of land to Mal-Mil Ltd for £260,000, which was the market value of the land on that date. The land had been inherited by Lim upon the death of her mother on 17 January 2003, when the land was valued at £182,000. Lim's mother had originally purchased the land for £137,000.
- (2) On 13 August 2009 Lim made a gift of 5,000 £1 ordinary shares in Oily plc, a quoted trading company, to her sister. On that date the shares were quoted on the Stock Exchange at £7·40–£7·56, with recorded bargains of £7·36, £7·38 and £7·60.

Lim had originally purchased 1,000 shares in Greasy plc on 8 July 2003 for £18,200. On 23 November 2003 Greasy plc was taken over by Oily plc. Lim received five £1 ordinary shares and two £1 preference shares in Oily plc for each £1 ordinary share held in Greasy plc. Immediately after the takeover each £1 ordinary share in Oily plc was quoted at £3·50 and each £1 preference share was quoted at £1·25.

Entrepreneurs' relief and holdover relief are not available in respect of this disposal.

- (3) On 22 March 2010 Lim sold 40,000 £1 ordinary shares in Mal-Mil Ltd for £280,000. She had originally purchased 125,000 shares in the company on 8 June 2002 for £142,000, and had purchased a further 60,000 shares on 23 May 2004 for £117,000. Mal-Mil Ltd has a total share capital of 250,000 £1 ordinary shares. Lim has made no previous disposals eligible for entrepreneurs' relief.

Mal-Mil Ltd

On 20 December 2009 Mal-Mil Ltd sold two of the five acres of land that had been purchased from Lim on 8 April 2009. The sale proceeds were £162,000 and legal fees of £3,800 were incurred in connection with the disposal. The market value of the unsold three acres of land as at 20 December 2009 was £254,000. During April 2009 Mal-Mil Ltd had spent £31,200 levelling the five acres of land. The relevant retail price indexes (RPIs) are as follows:

April 2009	211·5
December 2009	218·0

Mal-Mil Ltd's only other income for the year ended 31 December 2009 was a trading profit of £163,000.

Required:

- (a) Explain why Lim Lam's disposal of 40,000 £1 ordinary shares in Mal-Mil Ltd on 22 March 2010 qualifies for entrepreneurs' relief. (2 marks)
- (b) Calculate Lim Lam's capital gains tax liability for the tax year 2009–10, and state by when this should be paid. (11 marks)
- (c) Calculate Mal-Mil Ltd's corporation tax liability for the year ended 31 December 2009, and state by when this should be paid. (7 marks)

(20 marks)

4 You should assume that today's date is 20 March 2009.

Sammi Smith is a director of Smark Ltd. The company has given her the choice of being provided with a leased company motor car or alternatively being paid additional director's remuneration and then privately leasing the same motor car herself.

Company motor car

The motor car will be provided throughout the tax year 2009–10, and will be leased by Smark Ltd at an annual cost of £26,540. The motor car will be petrol powered, will have a list price of £92,000, and will have an official CO₂ emission rate of 320 grams per kilometre.

The lease payments will cover all the costs of running the motor car except for fuel. Smark Ltd will not provide Sammi with any fuel for private journeys.

Additional director's remuneration

As an alternative to having a company motor car, Sammi will be paid additional gross director's remuneration of £26,000 during the tax year 2009–10. She will then privately lease the motor car at an annual cost of £26,540.

Other information

The amount of business journeys that will be driven by Sammi will be immaterial and can therefore be ignored.

Sammi's current annual director's remuneration is in excess of £100,000. Smark Ltd prepares its accounts to 5 April, and pays corporation tax at the full rate of 28%. The lease of the motor car will commence on 6 April 2009.

Required:

(a) Advise Sammi Smith of the income tax and national insurance contribution implications for the tax year 2009–10 if she (1) is provided with the company motor car, and (2) receives additional director's remuneration of £26,000. (5 marks)

(b) Advise Smark Ltd of the corporation tax and national insurance contribution implications for the year ended 5 April 2010 if the company (1) provides Sammi Smith with the company motor car, and (2) pays Sammi Smith additional director's remuneration of £26,000.

Note: you should ignore value added tax (VAT). (5 marks)

(c) Determine which of the two alternatives is the most beneficial from each of the respective points of view of Sammi Smith and Smark Ltd. (5 marks)

(15 marks)

- 5 Goff Green has been a self-employed manufacturer of golf equipment since 6 April 2000. For the year ended 5 April 2010 he made a trading loss of £85,000. Goff's recent trading profits are as follows:

	£
Year ended 5 April 2006	16,700
Year ended 5 April 2007	15,400
Year ended 5 April 2008	14,800
Year ended 5 April 2009	23,600

For each of the tax years from 2005–06 to 2009–10 Goff received gross building society interest of £3,800.

On 16 June 2009 Goff disposed of an investment and this resulted in a chargeable gain of £19,700. He disposed of another investment on 19 January 2010 and this resulted in a capital loss of £4,800.

Required:

- (a) Calculate Goff Green's taxable income and taxable gains for each of the tax years from 2005–06 to 2009–10 on the assumption that he relieves the maximum possible amount of the trading loss of £85,000 for the year ended 5 April 2010 as early as possible, but without unnecessarily wasting his personal allowances. Your answer should clearly show the amount of the trading loss that is unrelieved.

Note: you should assume that the tax allowances for the tax year 2009–10 apply throughout. (7 marks)

- (b) Assuming that for the year ended 5 April 2011 Goff Green will make a trading profit of £40,000, explain why it would probably not be beneficial for him to make a loss relief claim against the chargeable gain of £19,700 arising on the disposal of the investment on 16 June 2009.

Note: you should assume that the tax rates and allowances for the tax year 2009–10 will continue to apply. (3 marks)

(10 marks)

End of Question Paper