Fundamentals Level – Skills Module

Taxation (United Kingdom)

Specimen Exam applicable from June 2015

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

This paper is divided into two sections:

Section A – ALL 15 questions are compulsory and MUST be attempted

Section B – ALL SIX 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.

Paper F6 (UK)

ACCA

The Association of Chartered Certified Accountants

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 B.

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 allowance

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 limit

Annual allowance – 2014–15	£40,000
– 2011–12 to 2013–14	£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 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

Value added tax (VAT)

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

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	£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	12·0
		£41,866 and above per year	2·0
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 exemption limit	£5,885
Class 4		£1 – £7,956 per year	Nil
		£7,957 – £41,865 per year	9·0
		£41,866 and above per year	2·0

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%

Section A – ALL 15 questions are compulsory and MUST be attempted

Please use the space provided on the inside cover of the Candidate Answer Booklet to indicate your chosen answer to each multiple-choice question.
Each question is worth 2 marks.

1 During the tax year 2014–15, William was paid a gross annual salary of £82,700. He also received taxable benefits valued at £5,400.

What amount of class 1 national insurance contributions (NIC) will have been suffered by William for the tax year 2014–15?

A £4,994
B £8,969
C £4,886
D £4,069

2 You are a trainee Chartered Certified Accountant and your firm has a client who has refused to disclose a chargeable gain to HM Revenue and Customs (HMRC).

From an ethical viewpoint, which of the following actions could be expected of your firm?

(1) Reporting under the money laundering regulations
(2) Advising the client to make disclosure
(3) Ceasing to act for the client
(4) Informing HMRC of the non-disclosure
(5) Warning the client that your firm will be reporting the non-disclosure
(6) Notifying HMRC that your firm has ceased to act for the client

A 2, 3 and 5
B 1, 2, 3 and 6
C 2, 3 and 4
D 1, 4, 5 and 6

3 Martin was born on 28 June 1965. He is self-employed, and for the year ended 5 April 2015 his trading profit was £109,400. During the tax year 2014–15, Martin made a gift aid donation of £800 (gross) to a national charity.

What amount of personal allowance will Martin be entitled to for the tax year 2014–15?

A £10,000
B £5,700
C £5,300
D Nil

4 For the year ended 31 March 2015, Halo Ltd made a trading loss of £180,000.

Halo Ltd has owned 100% of the ordinary share capital of Shallow Ltd since it began trading on 1 July 2014. For the year ended 30 June 2015, Shallow Ltd will make a trading profit of £224,000.

Neither company has any other taxable profits or allowable losses.

What is the maximum amount of group relief which Shallow Ltd can claim from Halo Ltd in respect of the trading loss of £180,000 for the year ended 31 March 2015?

A £180,000
B £168,000
C £45,000
D £135,000

5 For the year ended 31 March 2014, Sizeable Ltd had a corporation tax liability of £384,000, and for the year ended 31 March 2015 had a liability of £456,000.

Sizeable Ltd is a large company, and is therefore required to make instalment payments in respect of its corporation tax liability.

The company's profits have accrued evenly throughout each year.

What is the amount of each instalment payable by Sizeable Ltd in respect of its corporation tax liability for the year ended 31 March 2015?

A £228,000
B £114,000
C £96,000
D £192,000

6 For the year ended 31 December 2014, Lateness Ltd had a corporation tax liability of £60,000, which it did not pay until 31 March 2016. Lateness Ltd is not a large company.

How much interest will Lateness Ltd be charged by HM Revenue and Customs (HMRC) in respect of the late payment of its corporation tax liability for the year ended 31 December 2014?

A £900
B £2,250
C £300
D £450

7 On 26 November 2014 Alice sold an antique table for £8,700. The antique table had been purchased on 16 May 2011 for £3,800.

What is Alice's chargeable gain in respect of the disposal of the antique table?

A £4,500
B £1,620
C £4,900
D Nil

8 On 14 November 2014, Jane made a cash gift to a trust of £800,000 (after deducting all available exemptions). Jane paid the inheritance tax arising from this gift. Jane has not made any other lifetime gifts.

What amount of lifetime inheritance tax would have been payable in respect of Jane's gift to the trust?

A £95,000
B £190,000
C £118,750
D £200,000

9 During the tax year 2014–15, Mildred made the following cash gifts to her grandchildren:

(1) £400 to Alfred
(2) £140 to Minnie
(3) A further £280 to Minnie
(4) £175 to Winifred

Which of the gifts will be exempt from inheritance tax under the small gifts exemption?

A 1, 2, 3 and 4
B 2, 3 and 4 only
C 2 and 4 only
D 4 only

10 For the quarter ended 31 March 2015, Zim had standard rated sales of £59,700 and standard rated expenses of £27,300. Both figures are inclusive of value added tax (VAT).

Zim uses the flat rate scheme to calculate the amount of VAT payable, with the relevant scheme percentage for her trade being 12%.

How much VAT will Zim have to pay to HM Revenue and Customs (HMRC) for the quarter ended 31 March 2015?

A £6,396
B £3,888
C £6,480
D £7,164

11 Which of the following assets will ALWAYS be exempt from capital gains tax?

(1) A motor car suitable for private use
(2) A chattel
(3) A UK Government security (gilt)
(4) A house

A 1 and 3
B 2 and 3
C 2 and 4
D 1 and 4

12 Winston has already invested £8,000 into a cash new individual savings account (NISA) during the tax year 2014–15. He now wants to invest into a stocks and shares NISA.

What is the maximum possible amount which Winston can invest into a stocks and shares NISA for the tax year 2014–15?

A £15,000
B £7,000
C Nil
D £7,500

13 **Ming is self-employed. How long must she retain the business and non-business records used in preparing her self-assessment tax return for the tax year 2014–15?**

	Business records	Non-business records
A	31 January 2017	31 January 2017
B	31 January 2017	31 January 2021
C	31 January 2021	31 January 2021
D	31 January 2021	31 January 2017

14 Moon Ltd has had the following results:

Period	Profit/(loss) £
Year ended 31 December 2014	(105,000)
Four-month period ended 31 December 2013	43,000
Year ended 31 August 2013	96,000

The company does not have any other income.

How much of Moon Ltd's trading loss for the year ended 31 December 2014 can be relieved against its total profits of £96,000 for the year ended 31 August 2013?

A £64,000
B £96,000
C £70,000
D £62,000

15 Nigel has not previously been resident in the UK, being in the UK for less than 20 days each tax year. For the tax year 2014–15, he has three ties with the UK.

What is the maximum number of days which Nigel could spend in the UK during the tax year 2014–15 without being treated as resident in the UK for that year?

A 90 days
B 182 days
C 45 days
D 120 days

Section B – ALL SIX questions are compulsory and MUST be attempted

1 (a) On 10 June 2014, 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 2004. 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 2014 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 2004 until 10 June 2014. Grant has never been an employee or a director of Dub Ltd.

For the tax year 2014–15 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 2014–15. (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 2014, and then gifted the cash proceeds to Grant. (2 marks)

(b) On 12 February 2015, Marlon sold a house for £497,000, which he had owned individually. The house had been purchased on 22 October 1999 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 2014–15 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 2014–15. (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)

(10 marks)

2 You should assume that today's date is 15 March 2015.

Opal Elder, aged 71, owns the following assets:

(1) Two properties respectively valued at £374,000 and £442,000. The first property has an outstanding repayment mortgage of £160,000, and the second property has an outstanding endowment mortgage of £92,000.

(2) Vintage motor cars valued at £172,000.

(3) Investments in new individual savings accounts (NISAs) valued at £47,000, savings certificates from NS&I (National Savings and Investments) valued at £36,000, and government stocks (gilts) valued at £69,000.

Opal owes £22,400 in respect of a personal loan from a bank, and she has also verbally promised to pay legal fees of £4,600 incurred by her nephew.

Under the terms of her will, Opal has left all of her estate to her children. Opal's husband is still alive.

On 14 August 2005, Opal had made a gift of £100,000 to her daughter, and on 7 November 2014, she made a gift of £220,000 to her son. Both these figures are after deducting all available exemptions.

The nil rate band for the tax year 2005–06 is £275,000.

Required:

(a) (i) Calculate Opal Elder's chargeable estate for inheritance tax purposes were she to die on 20 March 2015. (5 marks)

(ii) Calculate the amount of inheritance tax which would be payable in respect of Opal Elder's chargeable estate, and state who will be responsible for paying the tax. (3 marks)

(b) Advise Opal Elder as to why the inheritance tax payable in respect of her estate would alter if she were to live for another seven years until 20 March 2022, and by how much.

Note: You should assume that both the value of Opal Elder's estate and the nil rate band will remain unchanged. (2 marks)

(10 marks)

3 Glacier Ltd runs a business providing financial services. The following information is available in respect of the company's value added tax (VAT) for the quarter ended 31 March 2015:

(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 2015 Glacier issued a VAT invoice for £8,000 plus VAT of £1,600 to a VAT registered customer. This was in respect of a contract for financial services which will be completed on 15 April 2015. The customer paid for the contract in two instalments of £4,800 on 31 March 2015 and 30 April 2015.

(3) Invoices were issued for sales of £289,100 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 Glacier Ltd is provided with free fuel for private mileage driven in her company motor car. During the quarter ended 31 March 2015, this fuel cost Glacier Ltd £260. The relevant quarterly scale charge is £408. Both these figures are inclusive of VAT.

For the quarters ended 30 September 2013 and 30 June 2014, Glacier 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:

(a) Calculate the amount of output VAT payable by Glacier Ltd for the quarter ended 31 March 2015. (4 marks)

(b) Advise Glacier Ltd of the default surcharge implications if it is one month late in submitting its VAT return for the quarter ended 31 March 2015 and in paying the related VAT liability. (3 marks)

(c) State the circumstances in which Glacier Ltd is and is not required to issue a VAT invoice, and the period during which such an invoice should be issued. (3 marks)

(10 marks)

4 Sophie Shape has been a self-employed sculptor since 1996, preparing her accounts to 5 April. Sophie's tax liabilities for the tax years 2013–14 and 2014–15 are as follows:

	2013–14	2014–15
	£	£
Income tax liability	5,240	6,100
Class 2 national insurance contributions	143	143
Class 4 national insurance contributions	1,240	1,480
Capital gains tax liability	0	4,880

No income tax has been deducted at source.

Required:

(a) Prepare a schedule showing the payments on account and balancing payment which Sophie Shape will have made, or will have to make, during the period from 1 April 2015 to 31 March 2016.

Note: Your answer should clearly identify the relevant due date of each payment. (4 marks)

(b) State the implications if Sophie Shape had made a claim to reduce her payments on account for the tax year 2014–15 to nil without any justification for doing so. (2 marks)

(c) Advise Sophie Shape of the latest date by which she can file a paper self-assessment tax return for the tax year 2014–15. (1 mark)

(d) State the period during which HM Revenue and Customs (HMRC) will have to notify Sophie Shape if they intend to carry out a compliance check in respect of her self-assessment tax return for the tax year 2014–15, and the possible reasons why such a check would be made.

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

(10 marks)

5 On 6 April 2014, Simon Bass, who was born on 14 June 1991, commenced employment with Echo Ltd as a music critic. On 1 January 2015, he commenced in partnership with Art Beat running a small music venue, preparing accounts to 30 April. The following information is available for the tax year 2014–15:

Employment

(1) During the tax year 2014–15, Simon was paid a gross annual salary of £23,700.

(2) During May 2014, Echo Ltd paid £11,600 towards Simon's removal expenses when he permanently moved to take up his new employment with the company, as he did not live within a reasonable commuting distance. The £11,600 covered both his removal expenses and the legal costs of acquiring a new main residence.

(3) Throughout the tax year 2014–15, Echo Ltd provided Simon with living accommodation. The company had purchased the property in 2004 for £89,000, and it was valued at £143,000 on 6 April 2014. The annual value of the property is £4,600. The property was furnished by Echo Ltd during March 2014 at a cost of £9,400.

Partnership

(1) The partnership's tax adjusted trading profit for the four-month period ended 30 April 2015 is £29,700. This figure is **before** taking account of capital allowances.

(2) The only item of plant and machinery owned by the partnership is a motor car which cost £18,750 on 1 February 2015. The motor car has a CO_2 emission rate of 155 grams per kilometre. It is used by Art, and 40% of the mileage is for private journeys.

(3) Profits are shared 40% to Simon and 60% to Art. This is after paying an annual salary of £6,000 to Art.

Property income

(1) Simon owns a freehold house which is let out furnished. The property was let throughout the tax year 2014–15 at a monthly rent of £660.

(2) During the tax year 2014–15, Simon paid council tax of £1,320 in respect of the property, and also spent £2,560 on purchasing new furniture.

(3) Simon claims the wear and tear allowance.

Required:

(a) Calculate Simon Bass's taxable income for the tax year 2014–15. (13 marks)

(b) State TWO advantages for the partnership of choosing 30 April as its accounting date rather than 5 April. (2 marks)

(15 marks)

6 You are a trainee accountant and your manager has asked you to correct a corporation tax computation which has been prepared by the managing director of Naive Ltd, a company which manufactures children's board games. The corporation tax computation is for the year ended 31 March 2015 and contains a significant number of errors:

Naive Ltd – Corporation tax computation for the year ended 31 March 2015

	£
Trading profit (working 1)	494,200
Loan interest received (working 2)	32,100
	526,300
Dividends received (working 3)	28,700
	555,000
Corporation tax (555,000 at 21%)	116,550

Working 1 – Trading profit

	£
Profit before taxation	395,830
Depreciation	15,740
Donations to political parties	400
Qualifying charitable donations	900
Accountancy	2,300
Legal fees in connection with the issue of loan notes (the loan was used to finance the company's trading activities)	5,700
Entertaining suppliers	3,600
Entertaining employees	1,700
Gifts to customers (pens costing £40 each and displaying Naive Ltd's name)	920
Gifts to customers (food hampers costing £45 each and displaying Naive Ltd's name)	1,650
Capital allowances (working 4)	65,460
Trading profit	494,200

Working 2 – Loan interest received

	£
Loan interest receivable	32,800
Accrued at 1 April 2014	10,600
Accrued at 31 March 2015	(11,300)
Loan interest received	32,100

The loan was made for non-trading purposes.

Working 3 – Dividends received

	£
From unconnected UK companies	20,700
From a 100% UK subsidiary company	8,000
Dividends received	28,700

These figures were the actual cash amounts received.

Working 4 – Capital allowances

	Main pool	Motor car	Special rate pool	Allowances
	£	£	£	£
Written down value (WDV) brought forward	12,400		13,600	
Additions				
Machinery	42,300			
Motor car [1]	13,800			
Motor car [2]		14,000		
	68,500			
Annual investment allowance (AIA)	(68,500)			68,500
Disposal proceeds			(9,300)	
			4,300	
Balancing allowance			(4,300)	(4,300)
Writing down allowance (WDA) – 18%		(2,520) x 50%		1,260
WDV carried forward	0	11,480		
Total allowances				65,460

(1) Motor car [1] has a CO_2 emission rate of 110 grams per kilometre.

(2) Motor car [2] has a CO_2 emission rate of 155 grams per kilometre. This motor car is used by the sales manager and 50% of the mileage is for private journeys.

(3) All of the items included in the special rate pool at 1 April 2014 were sold for £9,300 during the year ended 31 March 2015. The original cost of these items was £16,200.

Other information

From your files, you note that Naive Ltd has one associated company (the 100% UK subsidiary company mentioned in working 3).

Required:

Prepare a corrected version of Naive Ltd's corporation tax computation for the year ended 31 March 2015.

Note: You should indicate by the use of zero any items in the computation of the trading profit for which no adjustment is required.

(15 marks)

End of Question Paper

Answers

Section A

1 C

(33,909 (41,865 – 7,956) at 12%) + (40,835 (82,700 – 41,865) at 2%) = £4,886

2 B

3 B

	£
Personal allowance	10,000
Restriction (109,400 – 800 – 100,000 = 8,600/2)	(4,300)
Restricted personal allowance	5,700

4 D

Lower of:
£135,000 (180,000 x 9/12)
£168,000 (224,000 x 9/12)

5 B

456,000/4 = £114,000

6 A

60,000 x 3% x 6/12 = £900 (period 1 October 2015 to 31 March 2016)

7 A

2,700 (8,700 – 6,000) x 5/3 = £4,500

This is less than £4,900 (8,700 – 3,800)

8 C

475,000 (800,000 – 325,000) x 20/80 = £118,750

9 D

10 D

59,700 x 12% = £7,164

11 A

12 B

15,000 – 8,000 = £7,000

13 C

Marks

14 D

105,000 – 43,000 = £62,000

15 A

2 marks each **30**

Section B | Marks

1 **(a) Delroy and Grant**

(i) Grant – Capital gains tax liability 2014–15

	£	
Ordinary shares in Dub Ltd		
Disposal proceeds	240,000	½
Cost	(25,000)	1
	215,000	
Annual exempt amount	(11,000)	½
	204,000	
Capital gains tax: 204,000 at 28%	57,120	1
		3

Tutorial notes:

(1) Because the whole of Delroy's chargeable gain has been held over, Grant effectively took over the original cost of £25,000.

(2) The disposal does not qualify for entrepreneurs' relief as Grant was neither an officer nor an employee of Dub Ltd.

(ii) (1) The disposal would have qualified for entrepreneurs' relief as Delroy was the sales director of Dub Ltd, and his shareholding of 25% (25,000/100,000 x 100) was more than the minimum required holding of 5%. 1

(2) The capital gains tax liability would therefore have been calculated at the rate of 10%. ½

(3) There are no capital gains tax implications regarding a gift of cash. ½

2

(b) Marlon and Alvita

(i) Marlon – Chargeable gain 2014–15

	£	£	
House			
Disposal proceeds		497,000	½
Cost	146,000		½
Incidental costs (2,900 + 3,700)	6,600		1
		(152,600)	
		344,400	
Principal private residence exemption		(229,600)	1
		114,800	3

(1) One-third of Marlon's house was always used exclusively for business purposes, so the principal private residence exemption is restricted to £229,600 (344,400 x 2/3).

(ii) (1) The capital gains tax saving if 50% ownership of the house had been transferred to Alvita prior to its disposal would have been £6,266, calculated as follows:

		£	
Annual exempt amount	11,000 at 28%	3,080	1
Lower rate tax saving	31,865 at 10% (28% – 18%)	3,186	1
		6,266	2
			10

Tutorial note: *Transferring 50% ownership of the house to Alvita prior to its disposal would have enabled her annual exempt amount and lower rate tax band of 18% for 2014–15 to be utilised.*

			Marks
2 (a) (i) Opal Elder – Chargeable estate			
	£	£	
Property (374,000 + 442,000)		816,000	½
Repayment mortgage	160,000		½
Endowment mortgage	0		1
		(160,000)	
		656,000	
Motor cars		172,000	½
Investments (47,000 + 36,000 + 69,000)		152,000	1
		980,000	
Bank loan	22,400		½
Legal fees	0		1
		(22,400)	
Chargeable estate		957,600	5

Tutorial notes:

(1) There is no deduction in respect of the endowment mortgage as this will be repaid upon death by the life assurance element of the mortgage.

(2) The promise to pay the nephew's legal fees is not deductible as it is not legally enforceable.

(ii) Opal Elder – Inheritance tax on death estate

	£	
Chargeable estate	957,600	
IHT liability 105,000 (working) at nil%	0	W
852,600 at 40%	341,040	½
	341,040	

(1) The personal representatives of Opal's estate will be responsible for paying the inheritance tax. 1

Working – Available nil rate band

	£	
Nil rate band	325,000	½
Potentially exempt transfers – 14 August 2005	0	½
– 7 November 2014	(220,000)	½
	105,000	3

Tutorial note: *The potentially exempt transfer on 14 August 2005 is exempt from inheritance tax as it was made more than seven years before 20 March 2015.*

(b) (1) If Opal were to live for another seven years, then the potentially exempt transfer on 7 November 2014 would become exempt. 1

(2) The inheritance tax payable in respect of her estate would therefore decrease by £88,000 (220,000 at 40%). 1

2

10

Marks

3 (a) Glacier Ltd – Output VAT for the quarter ended 31 March 2015

	£	
Sales		
VAT registered customers (9,400 (44,600 – 35,200) x 20%)	1,880	1
Additional contract	1,600	1
Non-VAT registered customers (46,800 (289,100 – 242,300) x 20/120)	7,800	1
Fuel scale charge (408 x 20/120)	68	1
	11,348	4

Tutorial note: *The basic tax point for a supply of services is the date when they are completed, but if a VAT invoice is issued or payment received before the basic tax point, then this becomes the actual tax point. Therefore the tax point for the contract is when the VAT invoice was issued on 1 March 2015.*

(b) (1) Glacier Ltd was late in submitting VAT returns and paying the related VAT liability for two previous quarters. The company has not managed to revert to a clean default surcharge record by submitting four consecutive VAT returns on time. 1

(2) The late payment of VAT for the quarter ended 31 March 2015 will therefore result in a surcharge of 5% of the VAT liability for that period, although this will not be collected if it is less than £400. 1

(3) In addition, the surcharge period will be extended to 31 March 2016. 1

3

(c) (1) Glacier Ltd must issue a VAT invoice when it makes a standard rated supply to a VAT registered customer. 1

(2) However, there is no requirement to do so if the supply is exempt or if the supply is to a non-VAT registered customer. 1

(3) A VAT invoice should be issued within 30 days of the date when the supply is treated as being made. 1

3

10

4 (a) Sophie Shape – Schedule of tax payments

Due date	**Tax year**	**Payment**	**£**	
31 July 2015	2014–15	Second payment on account	3,240	1
6,480 (5,240 + 1,240) x 50%				
31 January 2016	2014–15	Balancing payment	5,980	2
12,460 (6,100 + 1,480 + 4,880) – 6,480 (3,240 x 2)				
31 January 2016	2015–16	First payment on account	3,790	1
7,580 (6,100 + 1,480) x 50%				
				4

Tutorial notes:

(1) The second payment on account for 2014–15 is based on Sophie's income tax and class 4 NIC liability for 2013–14.

(2) The balancing payment for 2014–15 includes the capital gains tax liability for that year.

(3) The first payment on account for 2015–16 is based on Sophie's income tax and class 4 NIC liability for 2014–15.

(b) (1) If Sophie's payments on account for 2014–15 were reduced to nil, then she would be charged interest on the payments due of £3,240 from the relevant due date to the date of payment. 1

(2) A penalty based on the amount of underpaid tax will be charged as the claim to reduce the payments on account to nil would appear to be made fraudulently or negligently. 1

2

			Marks
(c)	(1)	Unless the return is issued late, the latest date when Sophie can file a paper self-assessment tax return for 2014–15 is 31 October 2015.	1
(d)	(1)	If HM Revenue and Customs (HMRC) intend to carry out a compliance check into Sophie's 2014-15 tax return they will have to notify her within 12 months of the date when they receive the return.	1
	(2)	HMRC has the right to carry out a compliance check as regards the completeness and accuracy of any return, and such a check may be made on a completely random basis.	1
	(3)	However, compliance checks are generally carried out because of a suspicion that income has been undeclared or because deductions have been incorrectly claimed. For example, where accounting ratios are out of line with industry norms.	1
			3
			10

5 (a) Simon Bass – Taxable income 2014–15

	£	
Employment income		
Salary	23,700	½
Removal expenses (11,600 – 8,000)	3,600	1
Living accommodation – Annual value	4,600	½
– Additional benefit (working 1)	2,210	W1
– Furniture (9,400 x 20%)	1,880	1
	35,990	
Trading profit (working 2)	8,220	W2
Property business profit (working 4)	5,940	W4
	50,150	
Personal allowance	(10,000)	½
Taxable income	40,150	

Tutorial note: *Only £8,000 of the relocation costs is exempt.*

Working 1 – Living accommodation additional benefit

(1) The benefit is based on the market value when first provided.

	£	
Market value	143,000	1
Limit	(75,000)	½
	68,000	

(2) The additional benefit is therefore £2,210 (68,000 at 3·25%). ½

Tutorial note: *The property was purchased more than six years before first being provided, so the benefit is based on the market value when first provided.*

Working 2 – Trading profit

(1) Simon's share of the partnership's trading profit for the period ended 30 April 2015 is £10,960 calculated as follows:

	£	
Trading profit	29,700	½
Capital allowances (working 3)	(300)	W3
	29,400	
Salary paid to Art (6,000 x 4/12)	(2,000)	1
	27,400	
Profit share 27,400 x 40%	10,960	½

(2) Simon's trading income assessment for 2014–15 is £8,220 (10,960 x 3/4). 1

Tutorial note: *Simon's assessment for 2014–15 is for the period 1 January 2015 to 5 April 2015.*

Marks

Working 3 – Capital allowances

	Motor car £		Allowances	
Addition	18,750			½
WDA – 8% x 4/12	(500)	x 60%	300	1½
WDV carried forward	18,250			

Tutorial note: *The partnership's motor car has CO_2 emissions over 130 grams per kilometre and therefore qualifies for writing down allowances at the rate of 8%.*

Working 4 – Property business profit

	£	£	
Rent receivable (660 x 12)		7,920	½
Council tax	1,320		½
Wear and tear allowance (working 5)	660		W5
Furniture	0		½
		(1,980)	
Property business profit		5,940	

Tutorial note: *The cost of purchasing new furniture is irrelevant, since capital allowances are not given in respect of plant and machinery used in a private dwelling.*

Working 5 – Wear and tear allowance

(1) The wear and tear allowance is £660 (7,920 – 1,320 = 6,600 x 10%) as the rent receivable is reduced by the council tax paid by Simon. 1

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(b) (1) The interval between earning profits and paying the related tax liability will be 11 months longer. This can be particularly beneficial where profits are rising. 1

(2) It will be possible to calculate taxable profits well in advance of the end of the tax year, making it much easier to implement tax planning and make pension contributions. 1

2

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6 Naive Ltd – Corporation tax computation for the year ended 31 March 2015

	£	
Trading profit (working 1)	369,640	W1
Loan interest	32,800	1
	402,440	
Qualifying charitable donations	(900)	½
Taxable total profits	401,540	
Franked investment income (working 3)	23,000	W3
Augmented profits	424,540	
Corporation tax (401,540 at 21%)	84,323	½
Marginal relief (working 4)		
1/400 (750,000 – 424,540) x 401,540/424,540	(770)	W4 1
	83,553	

Marks

Working 1 – Trading profit for the year ended 31 March 2015

	£	£		Marks
Profit before taxation	395,830			
Depreciation	15,740			½
Donations to political parties	400			½
Qualifying charitable donations	900			½
Accountancy	0			½
Legal fees	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)		48,480	W2	½
	418,120	48,480		
	(48,480)			
Trading profit	369,640			

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 £	Marks
WDV brought forward		12,400	13,600		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]			14,000		½
Proceeds			(9,300)		½
		26,200	18,300		
WDA – 18%		(4,716)		4,716	½
WDA – 8%			(1,464)	1,464	1
WDV carried forward		21,484	16,836		
Total allowances				48,480	

Tutorial notes:

(1) *Motor car [1] has CO_2 emissions between 96 and 130 grams per kilometre and therefore qualifies for writing down allowances at the rate of 18%.*

(2) *Motor car [2] has CO_2 emissions over 130 grams per kilometre and therefore qualifies for writing down allowances at the rate of 8%. The private use of the 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 (20,700 x 100/90). The dividends from the 100% subsidiary company are not franked investment income as they are group dividends. 1 ½

Working 4 – Upper limit

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

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