
Answers

	£	£	<i>Marks</i>
1 (a) John Beach – Income tax computation 2012–13			
Employment income			
Director’s remuneration		184,000	½
Mileage allowance (working 1)		1,425	W1
		185,425	
Occupational pension contributions		(28,000)	1
		157,425	
Car benefit (working 2)	3,760		W2
Fuel benefit (20,200 x 32% x 5/12)	2,693		1
Beneficial loan (working 3)	1,610		W3
		8,063	
Property business profit		6,730	½
		172,218	
Personal allowance		0	1
Taxable income		172,218	
74,370 (working 4) at 20%		14,874	W4 ½
97,848 at 40%		39,139	½
		172,218	
Income tax liability		54,013	

Working 1 – Mileage allowance

- (1) The mileage allowance received by John was £3,576 (5,960 at 60p). ½
- (2) Ordinary commuting does not qualify for relief, so the tax free amount is £2,151 (4,270 + 510 = 4,780 at 45p). 1
- (3) The taxable benefit is therefore £1,425 (3,576 – 2,151). ½

Working 2 – Car benefit

- (1) The relevant percentage for the car benefit is 32% (11% + 21% (205 – 100 = 105/5)). 1
- (2) The motor car was available during the period 1 November 2012 to 5 April 2013, so the benefit for 2012–13 is £3,760 (28,200 x 32% x 5/12). 1

Working 3 – Beneficial loan

- (1) John repaid £24,000 (12,000 + 12,000) of the loan during 2012–13, so the outstanding balance at 5 April 2013 is £60,000 (84,000 – 24,000). 1
- (2) The benefit calculated using the average method is £1,610 as follows:

	£	
$\frac{84,000 + 60,000}{2} \times 4\%$	2,880	1
Interest paid	(1,270)	½
	1,610	

Working 4 – Effect of personal pension contributions on tax bands

- (1) Both employee and employer pension contributions count towards the annual allowance, so the amount of unused allowance each year is £10,000 (50,000 – (28,000 + 12,000)). ½
- (2) Unused allowances can be carried forward for three years, so the available annual allowances for 2012–13 are therefore £40,000 (10,000 x 4). 1

- (3) John's basic and higher rate tax bands are extended by his gross personal pension contributions of £40,000, to £74,370 (34,370 + 40,000) and £190,000 (150,000 + 40,000) in respect of the personal pension contributions.

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Tutorial note: No personal allowance is available as John's adjusted net income of £132,218 (172,218 – 40,000) exceeds £116,210.

(b) John Beach and Surf plc – National insurance contributions

- (1) Employee class 1 NIC for 2012–13 is £7,043 ((42,475 – 7,605 = 34,870 at 12%) + (185,425 – 42,475 = 142,950 at 2%)).
- (2) Employer's class 1 NIC for 2012–13 is £24,555 (185,425 – 7,488 = 177,937 at 13.8%).
- (3) Employer's class 1A NIC for 2012–13 is £1,113 (8,063 at 13.8%).

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Tutorial note: Occupational pension scheme contributions are not deductible for NIC purposes.

(c) Rhonda Beach – Income tax computation 2012–13

	£	
Pensions	8,040	½
Building society interest	21,400	½
	<hr/> 29,440	
Personal allowance (working)	(8,480)	W
Taxable income	<hr/> 20,960	
Income tax		
2,710 at 10%	271	1
18,250 at 20%	3,650	½
	<hr/> 20,960	
Income tax liability	<hr/> 3,921	

Working – Personal allowance

	£	£	
Personal allowance (age 65 – 74)		10,500	½
Adjusted net income	29,440		
Income limit	25,400		
	<hr/> 4,040/2	(2,020)	1
		<hr/> 8,480	
			<hr/> 4

Tutorial note: The personal allowance exceeds the pension income, so there is no non-savings income. Therefore the starting rate of 10% is available in full.

- (d)** (1) Furniture and equipment purchased for use in the furnished holiday letting will qualify for capital allowances instead of the 10% wear and tear allowance.
- (2) The profit from the furnished holiday letting will qualify as relevant earnings for pension tax relief purposes.
- (3) Capital gains tax entrepreneurs' relief, rollover relief and holdover relief will potentially be available when the furnished holiday letting is disposed of.

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2 Greenzone Ltd

(a) Trading profit for the period ended 31 March 2013

	£	
Operating profit	239,700	
Depreciation	28,859	½
Repainting office building	0	½
New reception area	19,800	½
Entertaining UK customers	3,600	½
Entertaining overseas customers	1,840	½
Political donations	740	½
Non-qualifying charitable donations	0	½
Gifts to customers – Pens	660	½
– Clocks	910	½
	<u>296,109</u>	
Capital allowances (working)	(18,409)	W ½
Trading profit	<u>277,700</u>	

Tutorial notes:

- (1) *The extension of the office building is not deductible, being capital in nature. The building has been improved rather than repaired.*
- (2) *Gifts to customers are only an allowable deduction if they cost less than £50 per recipient per year, are not of food, drink, tobacco or vouchers exchangeable for goods and carry a conspicuous advertisement for the company making the gift.*

Working – Plant and machinery

	£	Main pool £	Special rate pool £	Allowances £	
WDV brought forward		48,150	9,200		1
Addition – Motor car [2]		<u>20,400</u>			½
		68,550			
Proceeds – Motor car [3]		(8,500)			1
– Motor car [4]			<u>(12,400)</u>		½
Balancing charge			<u>3,200</u>	(3,200)	½
		<u>60,050</u>			
WDA – 18%		(10,809)		10,809	½
Addition qualifying for FYA					
Motor car [1]	10,800				½
FYA – 100%	<u>(10,800)</u>			10,800	½
		0			
WDV carried forward		<u>49,241</u>			
Total allowances				<u>18,409</u>	<u>10</u>

Tutorial notes:

- (1) *Motor car [1] has CO₂ emissions up to 110 grams per kilometre and therefore qualifies for the 100% first year allowance.*
- (2) *Motor car [2] has CO₂ emissions between 111 and 160 grams per kilometre and therefore qualifies for writing down allowances at the rate of 18%.*
- (3) *The proceeds for motor car [3] are restricted to the original cost figure of £8,500.*

- (b) (i) (1) Greenzone Ltd is associated with those companies in which it has a shareholding of over 50%. ½
- (2) Are Ltd and Can Ltd are therefore associated companies. ½
- (3) For associated company purposes, it does not matter where a company is resident, so Doer Co is also an associated company despite being resident overseas. 1
- 2

- (ii) The maximum amount of group relief that can be claimed is Can Ltd's trading loss of £64,700. Marks
2

Tutorial note: *Greenzone Ltd cannot claim group relief from Are Ltd as this company is not a 75% subsidiary.*

(iii) Corporation tax computation for the year ended 31 March 2013

	£	
Trading profit (from part (a))	277,700	½
Group relief	(64,700)	½
Taxable total profits	213,000	
Franked investment income (working 1)	39,000	W1
Augmented profits	<u>252,000</u>	
Corporation tax (213,000 at 24%)	51,120	½
Marginal relief (working 2)		
1/100 (375,000 – 252,000) x 213,000/252,000	(1,040)	W2 1
	<u>50,080</u>	

Working 1 – Franked investment income

- (1) Franked investment income is £39,000 (35,100 x 100/90). 1
- (2) The dividends from Are Ltd, Can Ltd and Doer Co are group dividends, and are therefore not franked investment income. 1

Working 2 – Upper limit

- (1) Greenzone Ltd has three associated companies, so the upper limit is reduced to £375,000 (1,500,000/4). ½
- 5

(c) (i) VAT return for the quarter ended 31 March 2013

	£	£	
Output VAT			
Sales		38,210	1
Group sales		4,330	1
Fuel scale charge (300 x 20/120)		50	1½
Input VAT			
Impairment loss	0		1
Expenses (working)	<u>12,560</u>		W
		<u>(12,560)</u>	
VAT payable		<u>30,030</u>	

Tutorial notes:

- (1) *The tax point for the deposit is the date of payment, so no adjustment is required to the output VAT figure of £38,210.*
- (2) *Relief is not available for the impairment loss as less than six months has passed from the time that payment was due.*

Working – Expenses

	£	
Total input VAT	12,770	
Entertaining UK customers	(210)	½
Entertaining overseas customers	0	1
Repainting office building	0	½
New reception area	0	½
	<u>12,560</u>	
		<u>7</u>

Tutorial note: *Input VAT on business entertainment is not recoverable unless it relates to the cost of entertaining overseas customers.*

	Marks
(ii) (1) The late submission for the quarter ended 31 December 2010 is irrelevant, as it was followed by the submission of four consecutive VAT returns on time.	½
(2) The late payment of VAT for the quarter ended 31 March 2013 occurs during the surcharge period relevant to the late payment for the quarter ended 30 September 2012. Therefore, it will result in a surcharge of £601 (30,030 x 2%).	1
(3) In addition, the surcharge period will be extended to 31 March 2014.	½
	2
 Tutorial note: <i>The surcharge of £601 is payable as it exceeds the de minimis amount of £400.</i>	
(iii) (1) There will be no need to account for VAT on goods and services supplied between group members. Such supplies will simply be ignored for VAT purposes.	1
(2) It will only be necessary to complete one VAT return for the three companies, so there could be a saving in administrative costs.	1
	2
	30

3 (a) Ginger

(1) The disposal is at an undervalue, so only the 'gift' element of the gain can be held over. The consideration paid for each share will be immediately chargeable to capital gains tax to the extent that it exceeds the allowable cost. The chargeable amount is therefore £1.60 (4.00 – 2.40) per share.	1
(2) Ginger's annual exempt amount for 2012–13 is £10,600.	1
(3) She can therefore sell 6,625 shares (10,600/1.60) to her daughter without this resulting in any capital gains tax liability for 2012–13.	½
	1½
	4

(b) Aom

Sale of first warehouse

	£	
Disposal proceeds	213,000	½
Cost	(184,000)	½
	29,000	
Rollover relief	(0)	1½
	29,000	

- (1) No rollover relief is available as the amount not reinvested of £45,000 (213,000 – 168,000) exceeds the chargeable gain.

Sale of second warehouse

	£	
Disposal proceeds	180,000	½
Cost	(113,000)	½
	67,000	
Rollover relief (67,000 – 12,000)	(55,000)	1½
	12,000	
		5

- (1) The sale proceeds are not fully reinvested, and so £12,000 (180,000 – 168,000) of the chargeable gain cannot be rolled over.

(c) Innocent and Nigel

- (1) If Innocent makes the disposal, then her capital gains tax liability for 2012–13 will be £6,300, calculated as follows:

	£	
Disposal proceeds	65,000	½
Cost (2,000 x 1)	<u>(2,000)</u>	1
	63,000	
Capital gains tax: 63,000 at 10%	<u>6,300</u>	1½

- (2) If Nigel makes the disposal, then his capital gains tax liability for 2012–13 will be £9,576, calculated as follows:

	£	
Disposal proceeds	65,000	½
Cost (46,200 x 2,000/3,000)	<u>(30,800)</u>	1
	34,200	
Capital gains tax: 34,200 at 28%	<u>9,576</u>	1

- (3) The capital gains tax saving if Innocent makes the disposal rather than Nigel is therefore £3,276 (9,576 – 6,300).

½
6
15

Tutorial notes:

- (1) A disposal by Innocent will qualify for entrepreneurs' relief as she is the managing director of Cinnamon Ltd, and her shareholding of 20% (20,000/100,000 x 100) is more than the minimum required holding of 5%.
- (2) A disposal by Nigel will not qualify for entrepreneurs' relief as he is not an officer or an employee of Cinnamon Ltd, and his shareholding is only 3% (3,000/100,000 x 100).

4 (a) The qualifying conditions for a change of accounting date by an unincorporated business are:

- The change of accounting date must be notified to HM Revenue and Customs by 31 January following the tax year in which the change is made. 1
 - The first accounts to the new accounting date must not exceed 18 months in length. 1
 - There must not have been a change of accounting date within the preceding five tax years, although this does not apply if the present change is made for genuine commercial reasons. 1
- 3

(b) Meung Nong – Assessable profits for the years 2010–11 to 2013–14

	£	
2010–11 (1 May 2010 to 5 April 2011) 50,400 x 11/12	<u>46,200</u>	1
2011–12 (Year ended 30 April 2011)	<u>50,400</u>	½
2012–13 (Year ended 30 April 2012)	<u>37,200</u>	½
2013–14 (Period ended 30 June 2013)		
Trading profit	61,500	1
Capital allowances (working 1)	<u>(2,184)</u>	W1
	59,316	
Relief for overlap profits (working 2)	<u>(8,400)</u>	W2
	<u>50,916</u>	

Marks

Working 1 – Capital allowances

- (1) Meung's period of account for 2013–14 is 14 months long. ½
- (2) Therefore the writing-down allowance for this year is £2,184 (10,400 x 18% x 14/12). 1

Working 2 – Relief for overlap profits

- (1) In 2011–12, there are overlap profits of £46,200 in respect of the 11-month period 1 May 2010 to 5 April 2011. 1
- (2) The basis period for 2013–14 is 14 months long, so two months of overlap profits can be relieved. This will mean that only 12 months' worth of profits are assessed this year. 1
- (3) The relief is therefore £8,400 (46,200 x 2/11). ½
- 7

(c) Opal Ltd – Taxable total profits for the 14-month period of account ended 31 May 2013

	Year ended 31 March 2013	Period ended 31 May 2013	
	£	£	
Trading profit	372,000	62,000	1
Capital allowances (working)	(11,160)	(6,713)	W
Taxable total profits	<u>360,840</u>	<u>55,287</u>	

- (1) Trading profits are allocated on a time basis: £372,000 (434,000 x 12/14) to the year ended 31 March 2013 and £62,000 (434,000 x 2/14) to the period ended 31 May 2013.

Working – Capital allowances

	£	Pool £	Allowances £	
Year ended 31 March 2013				
WDV brought forward		62,000		½
WDA – 18%		(11,160)	<u>11,160</u>	½
WDV carried forward		50,840		
Period ended 31 May 2013				
Addition qualifying for AIA				
Machinery	38,200			½
AIA – 100% x 25,000 x 2/12	(4,167)		4,167	1½
		<u>34,033</u>		
		84,873		
WDA – 18% x 2/12		(2,546)	2,546	1
WDV carried forward		<u>82,327</u>		
Total allowances			<u>6,713</u>	<u>5</u>
				<u>15</u>

5 (a) Pere Jones

(i) Inheritance tax (IHT) arising on death

Lifetime transfer – 23 August 2007

	£	
Value transferred	420,000	
Marriage exemption	5,000	1
Annual exemptions 2007–08	3,000	½
2006–07	<u>3,000</u>	½
	(11,000)	
Potentially exempt transfer	<u>409,000</u>	½
IHT liability 325,000 at nil%	0	½
84,000 at 40%	33,600	½
Taper relief reduction – 60%	<u>(20,160)</u>	1
	<u>13,440</u>	

Tutorial note: *The gift is a potentially exempt transfer that becomes chargeable as a result of Pere dying within seven years of making it.*

Death estate

	£	
Value of estate	880,000	
Spouse exemption (880,000/2)	<u>(440,000)</u>	1
Chargeable estate	<u>440,000</u>	
IHT liability 440,000 at 40%	<u>176,000</u>	½
		<u>6</u>

- (ii) (1) Phil Jones, the donee, will be responsible for paying the inheritance tax liability of £13,440 arising from the gift of the house. 1
- (2) The due date is 30 September 2013, being six months after the end of the month in which the donor died. 1
- 2

(b) Phil Jones

Income tax computation 2012–13

	£	£	
Property business income			
Rent receivable		22,000	½
Repairs	2,800		½
Insurance	<u>2,300</u>		½
		(5,100)	
		<u>16,900</u>	
Personal allowance		<u>(8,105)</u>	½
Taxable income		<u>8,795</u>	
Income tax			
<u>8,795 at 20%</u>		<u>1,759</u>	½
Income tax liability		<u>1,759</u>	

Capital gains tax computation 2012–13

Marks

	£	£	
House			
Disposal proceeds		504,000	½
Cost	420,000		1
Enhancement expenditure	5,300		1
Incidental costs of disposal	8,600		½
		<u>(433,900)</u>	
Chargeable gain		70,100	
Annual exempt amount		(10,600)	½
		<u>59,500</u>	
Capital gains tax			
25,575 (34,370 – 8,795) at 18%		4,603	½
33,925 at 28%		9,499	½
		<u>59,500</u>	
Capital gains tax liability		<u>14,102</u>	
			<u>7</u>
			<u>15</u>

Tutorial note: *The cost of replacing the property's chimney is revenue expenditure as the chimney is a subsidiary part of the house. The cost of the new boundary wall is capital expenditure as the wall is a separate, distinct, entity.*