

Fundamentals Level – Skills Module

Taxation (United Kingdom)

Tuesday 4 December 2012



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	Normal rates	Dividend rates
		%	%
Basic rate	£1 – £35,000	20	10
Higher rate	£35,001 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 £2,560 of taxable income.

Personal allowance

Personal allowance	Standard	£7,475
Personal allowance	65 – 74	£9,940
Personal allowance	75 and over	£10,090
Income limit for age related allowances		£24,000
Income limit for standard personal allowance		£100,000

Car benefit percentage

The base level of CO₂ emissions is 125 grams per kilometre.

A rate of 5% applies to petrol cars with CO₂ emissions of 75 grams per kilometre or less, and a rate of 10% applies where emissions are between 76 and 120 grams per kilometre.

Car fuel benefit

The base figure for calculating the car fuel benefit is £18,800.

Individual savings accounts (ISAs)

The overall investment limit is £10,680, of which £5,340 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	20
Special rate pool	10
Motor cars (purchases since 6 April 2009 (1 April 2009 for limited companies))	
New cars with 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 £100,000 of expenditure	100

Corporation tax

Financial year	2009	2010	2011
Small profits rate	21%	21%	20%
Main rate	28%	28%	26%
Lower limit	300,000	300,000	300,000
Upper limit	1,500,000	1,500,000	1,500,000
Standard fraction	7/400	7/400	3/200

Marginal relief

Standard fraction x (U – A) x N/A

Value added tax (VAT)

Standard rate	20%
Registration limit	£73,000
Deregistration limit	£71,000

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 – £7,225 per year	Nil
		£7,226 – £42,475 per year	12·0
		£42,476 and above per year	2·0
Class 1	Employer	£1 – £7,072 per year	Nil
		£7,073 and above per year	13·8
Class 1A			13·8
Class 2		£2·50 per week	
		Small earnings exemption	£5,315
Class 4		£1 – £7,225 per year	Nil
		£7,226 – £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 On 30 June 2011 Josie Jones, aged 42, ceased self-employment as a graphic designer. On 1 August 2011 she commenced employment with Typo plc as a creative director. The following information is available for the tax year 2011–12:

Self-employment

(1) Josie’s trading profits for the final two periods of trading were as follows:

	£
Year ended 30 April 2011	98,200
Two-month period ended 30 June 2011	16,600

Both these figures are before taking account of capital allowances.

(2) The tax written down value of the capital allowances main pool at 1 May 2010 was £13,200. On 21 May 2011 Josie purchased computer equipment for £3,600. All of the items included in the main pool were sold for £7,700 on 30 June 2011, with no item being sold for more than its original cost.

(3) Josie has unused overlap profits brought forward of £41,700.

Employment

- (1) Josie is paid a salary of £15,100 per month by Typo plc. The salary is paid on the last day of each calendar month.
- (2) During August 2011 Typo plc paid £11,600 towards Josie’s removal expenses when she permanently moved to take up her new employment with the company as she did not live within a reasonable commuting distance. The £11,600 covered both her removal expenses and the legal costs of acquiring a new main residence.
- (3) On 1 September 2011 Typo plc provided Josie with an interest free loan of £33,000 that she used to renovate her new main residence. This loan was still outstanding at 5 April 2012.
- (4) During the period from 1 August 2011 to 5 April 2012, Josie was provided with free meals in Typo plc’s staff canteen. The total cost of these meals to the company was £1,340. The canteen is available to all of the company’s employees.
- (5) During the period from 1 October 2011 to 5 April 2012, Typo plc provided Josie with a diesel powered motor car with an official CO₂ emission rate of 149 grams per kilometre. The motor car, which has a list price of £14,400, cost Typo plc £13,900. Typo plc does not provide Josie with any fuel for private journeys.
- (6) For the tax year 2011–12 Typo plc deducted a total of £43,777 in PAYE from Josie’s earnings.

Other information

(1) Josie owns two properties, which are let out. Property one qualifies as a trade under the furnished holiday letting rules, whilst property two is let out unfurnished. The income and allowable expenditure for the two properties for the tax year 2011–12 are as follows:

	Property one	Property two
	£	£
Income	6,600	7,200
Allowable expenditure	9,700	2,100

- (2) During the tax year 2011–12 Josie received building society interest of £8,960 and dividends of £6,480. These were the actual cash amounts received.
- (3) On 2 October 2011 Josie received a premium bond prize of £100.
- (4) During the tax year 2011–12 Josie made gift aid donations totalling £4,400 (net) to national charities.
- (5) Josie’s payments on account of income tax in respect of the tax year 2011–12 totalled £34,400.

Required:

- (a) Calculate the income tax payable by Josie Jones for the tax year 2011–12.**

Note: You should indicate by the use of zero any items that are non-taxable/exempt from tax. (20 marks)

- (b) (i) Calculate Josie Jones' balancing payment or repayment for the tax year 2011–12 and her payments on account for the tax year 2012–13. You should state the relevant due dates;**

Notes:

1. You should assume that no claim is made to reduce the payments on account.
2. You should ignore value added tax (VAT) and national insurance contributions (NIC). (3 marks)

- (ii) Assuming that Josie Jones expects to remain employed throughout the tax year 2012–13, explain why she will probably be able to make a claim to reduce her payments on account for the tax year 2012–13.**

(2 marks)

(25 marks)

- 2 (a) You are a trainee accountant and your manager has asked you to correct a corporation tax computation that has been prepared by the managing director of Clueless Ltd, a company which manufactures children's board games. The corporation tax computation is for the year ended 31 March 2012 and contains a significant number of errors:

Clueless Ltd – Corporation tax computation for the year ended 31 March 2012

	£
Trading profit (working 1)	494,200
Loan interest received (working 2)	32,100
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	526,300
Dividends received (working 3)	28,700
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	555,000
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Corporation tax (555,000 at 26%)	144,300
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Working 1 – Trading profit

	£
Profit before taxation	382,610
Depreciation	15,740
Donations to political parties	400
Donations paid under the gift aid scheme	900
Accountancy	2,300
Legal fees in connection with the issue of debentures (the finance was used for a trading purpose)	5,700
Repairs to warehouse following a flood	13,200
Entertaining suppliers	3,600
Entertaining employees	1,700
Gifts to customers (pens costing £40 each and displaying Clueless Ltd's name)	920
Gifts to customers (food hampers costing £45 each and displaying Clueless Ltd's name)	1,650
Capital allowances (working 4)	65,480
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Trading profit	494,200
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Working 2 – Loan interest received

	£
Loan interest receivable	32,800
Accrued at 1 April 2011	10,600
Accrued at 31 March 2012	(11,300)
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Loan interest received	32,100
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The loan was made for non-trading purposes.

Working 3 – Dividends received

	£
From unconnected UK companies	16,200
From unconnected overseas companies	4,500
From a 100% UK subsidiary company	8,000
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Dividends received	28,700
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These figures were the actual cash amounts received.

Working 4 – Capital allowances

	Main pool £	Motor car £	Special rate pool £	Allowances £
WDV brought forward	12,400		13,500	
Additions				
Machinery	42,300			
Motor car [1]	13,800			
Motor car [2]		11,800		
	<u>68,500</u>			
Annual investment allowance	(68,500)			68,500
Disposal proceeds			(9,300)	
			<u>4,200</u>	
Balancing allowance			(4,200)	(4,200)
WDA – 20%		(2,360) x 50%		1,180
WDV carried forward	<u>0</u>	<u>9,440</u>		
Total allowances				<u>65,480</u>

- (1) Motor car [1] has a CO₂ emission rate of 140 grams per kilometre.
- (2) Motor car [2] has a CO₂ emission rate of 185 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 2011 were sold for £9,300 during the year ended 31 March 2012. The original cost of these items was £16,200.

Other information

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

Required:

Prepare a corrected version of Clueless Ltd's corporation tax computation for the year ended 31 March 2012.

Notes:

1. You should indicate by the use of zero any items in the computation of the trading profit for which no adjustment is required.
 2. In answering this part of the question you should ignore value added tax. (16 marks)
- (b) The managing director of Clueless Ltd understands that for the year ended 31 March 2012 the company will have to file its self-assessment corporation tax return online, and that the supporting accounts and tax computations will have to be filed using the inline eXtensible Business Reporting Language (iXBRL). The managing director is concerned about how the company will be able to produce documents in this format.

Required:

- (i) State the date by which Clueless Ltd's self-assessment corporation tax return for the year ended 31 March 2012 should be filed; (1 mark)
- (ii) Explain the options available to Clueless Ltd regarding the production of accounts and tax computations in the iXBRL format. (3 marks)

- (c)** Clueless Ltd is registered for value added tax (VAT), but currently does not use any of the special VAT schemes. The company has annual standard rated sales of £1,200,000 and annual standard rated expenses of £550,000. Both these figures are exclusive of VAT and are likely to remain the same for the foreseeable future. Clueless Ltd is up to date with all of its tax returns, including those for corporation tax, PAYE and VAT. It is also up to date with its corporation tax, PAYE and VAT payments. However, the company often incurs considerable overtime costs due to its employees working late in order to meet tax return filing deadlines.

Clueless Ltd pays its expenses on a cash basis, but allows customers two months credit when paying for sales. The company does not have any impairment losses.

Clueless Ltd is planning to purchase some new machinery at a cost of £22,000 (exclusive of VAT). The machinery can either be purchased from an overseas supplier situated outside the European Union, or from a VAT registered supplier situated in the European Union. Clueless Ltd is not a regular importer and so is unsure of the VAT treatment for this purchase.

Required:

- (i) Explain why Clueless Ltd is entitled to use both the VAT cash accounting scheme and the VAT annual accounting scheme, and why it will probably be beneficial for the company to use both schemes;**
(6 marks)
- (ii) Explain when and how Clueless Ltd will have to account for VAT in respect of the new machinery if it is purchased from (1) a supplier situated outside the European Union, or (2) a VAT registered supplier situated elsewhere within the European Union.**
(4 marks)

(30 marks)

3 (a) Explain how limited companies can obtain relief for capital losses.

Note: You are not expected to explain how groups of companies can obtain relief for capital losses.

(3 marks)

(b) Acebook Ltd sold the following assets during the year ended 31 December 2011:

- (1) On 10 March 2011 Acebook Ltd sold its entire shareholding of 50p ordinary shares in Oogle plc for £3.20 per share. The company had originally purchased 8,000 shares in Oogle plc on 28 June 2003 for £25,200. On 31 October 2006 Oogle plc made a 2 for 1 bonus issue. Then, on 14 February 2008, Oogle plc made a 1 for 5 rights issue. Acebook Ltd took up its allocation under the rights issue in full, paying £4.30 for each new share issued.

Indexation factors are as follows:

June 2003 to October 2006	0.104
June 2003 to February 2008	0.166
June 2003 to March 2011	0.282
October 2006 to February 2008	0.055
October 2006 to March 2011	0.160
February 2008 to March 2011	0.100

- (2) On 30 June 2011 three acres of land were sold for £192,000. Acebook Ltd had originally purchased four acres of land, and the indexed cost of the four acres on 30 June 2011 was £196,000. The market value of the unsold acre of land as at 30 June 2011 was £53,000. During June 2011 Acebook Ltd spent £29,400 clearing and levelling all four acres of land. The land has never been used for business purposes.
- (3) On 1 October 2011 an investment property owned by Acebook Ltd was destroyed in a fire. The indexed cost of the property on that date was £138,400. Acebook Ltd received insurance proceeds of £189,000 on 20 October 2011, and on 31 October 2011 the company paid £172,400 for a replacement investment property. Acebook Ltd has made a claim to defer the gain arising from the receipt of the insurance proceeds.

Required:

Calculate Acebook Ltd's chargeable gains for the year ended 31 December 2011.

(12 marks)

(15 marks)

4 You should assume that today's date is 15 March 2011.

- (a) Sophia Wong is self-employed as a lawyer. For the year ended 5 April 2012 Sophia has forecast that her tax adjusted trading profit will be £80,000. This will be her only income for the tax year 2011–12, and Sophia's total income tax liability and national insurance contributions (NIC) for this year if she continues to trade on a self-employed basis will be £26,063 as follows:

	£
Income tax	22,010
Class 2 NIC	130
Class 4 NIC	3,923
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	26,063

Sophia understands that she could save tax and NIC if she instead traded as a limited company, and she is therefore considering incorporating her business on 6 April 2011. The forecast taxable total profits of the new limited company for the year ended 5 April 2012 are unchanged at £80,000 (before taking account of any director's remuneration).

Required:

Assuming that Sophia Wong incorporates her business on 6 April 2011, advise her whether or not there will be an overall saving of tax and national insurance contributions (NIC) for the tax year 2011–12 if she withdraws all of the profits from the new company as:

- (i) **director's remuneration (after allowing for employer's class 1 NIC, gross director's remuneration will be £71,156); or** (6 marks)
- (ii) **dividends (after allowing for corporation tax, net dividends will be £64,000).** (5 marks)

Notes:

- For both alternatives, you are expected to calculate the corporation tax liability (if any) of the new limited company for the year ended 5 April 2012, the income tax payable by Sophia Wong, and the class 1 NIC (if any) payable by Sophia and the new company.
- You should assume that the rates of corporation tax remain unchanged.

- (b) The only chargeable asset of Sophia Wong's business is goodwill and this is valued at £150,000. The goodwill has a nil cost.

Sophia will not make any other disposals during the tax year 2011–12. She has unused capital losses of £39,400 brought forward from the tax year 2010–11.

Required:

- (i) **State the capital gains tax consequences for the tax year 2011–12 if Sophia Wong transfers her business to a new limited company on 6 April 2011 in exchange for ordinary shares;** (2 marks)
- (ii) **Explain why it would be beneficial if the consideration for the transfer of Sophia Wong's business instead consisted of £50,000 in cash and £100,000 in £1 ordinary shares.** (2 marks)

(15 marks)

5 You should assume that today's date is 15 February 2012.

- (a)** Rosie Rohan, aged 48, is the managing director of Hornburg plc. During the tax year 2011–12 Rosie was paid gross director's remuneration of £220,000. She has made the following gross personal pension contributions:

Tax year	Pension contribution £
2007–08	33,000
2008–09	41,000
2009–10	26,000
2010–11	Nil

Rosie was a member of a pension scheme for the tax year 2010–11.

Required:

Advise Rosie Rohan of the total amount of pension scheme annual allowances that she has available for the tax year 2011–12, the method by which tax relief will be given for any personal pension contributions that she makes during that year, and the tax implications if she makes contributions in excess of the available annual allowances.

Note:

1. You are not expected to calculate Rosie Rohan's income tax liability.
2. You are not expected to consider the situation where pension contributions do not attract tax relief.

(6 marks)

- (b)** Sam Shire, aged 32, has already invested £4,000 into a cash individual savings account (ISA) during the tax year 2011–12. He now wants to invest into a stocks and shares ISA.

Required:

Advise Sam Shire of the maximum possible amount that he can invest into a stocks and shares ISA for the tax year 2011–12, and the tax advantages of holding stocks and shares within an ISA. (2 marks)

- (c)** Tom Tirith, aged 76, made a cash gift of £200,000 to his daughter on 20 December 2010. He is now going to make a cash gift of £450,000 to a trust on 20 February 2012.

The nil rate band for the tax year 2010–11 is £325,000.

Required:

- (i) Calculate the lifetime inheritance tax that will be payable in respect of Tom Tirith's gift of £450,000 to a trust if:**

- (1) the trust pays the tax arising from the gift; or**
- (2) Tom pays the tax arising from the gift.**

The total marks will be split equally between each part.

(3 marks)

- (ii) Assuming that Tom Tirith pays the tax arising from the gift of £450,000, calculate the additional inheritance tax that would be payable in respect of the gift if Tom were to die on 30 June 2016.**

Note: You should assume that the nil rate band of £325,000 remains unchanged.

(4 marks)

(15 marks)

End of Question Paper