

Fundamentals Level – Skills Module

# Taxation (United Kingdom)

March/June 2017 – Sample Questions



**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 – £32,000	20%	7.5%
Higher rate	£32,001 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	£11,000
Transferable amount	£1,100
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	7%
51 grams to 75 grams per kilometre	11%
76 grams to 94 grams per kilometre	15%
95 grams per kilometre	16%

### Car fuel benefit

The base figure for calculating the car fuel benefit is £22,200.

### Individual savings accounts (ISAs)

The overall investment limit is £15,240.

### Pension scheme limits

Annual allowance – 2014–15 to 2016–17	£40,000
– 2013–14	£50,000
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

### 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	20%
Profit threshold	£1,500,000

### Value added tax (VAT)

Standard rate	20%
Registration limit	£83,000
Deregistration limit	£81,000

**Inheritance tax: tax rates**

£1 – £325,000	Nil
Excess – Death rate	40%
– Lifetime rate	20%

**Inheritance tax: taper relief**

<b>Years before death</b>	<b>Percentage reduction</b>
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**

	<b>Normal rates</b>	<b>Residential property</b>
Lower rate	10%	18%
Higher rate	20%	28%
Annual exempt amount		£11,100
Entrepreneurs' relief – Lifetime limit		£10,000,000
– Rate of tax		10%

**National insurance contributions**

Class 1	Employee	£1 – £8,060 per year	Nil
		£8,061 – £43,000 per year	12%
		£43,001 and above per year	2%
Class 1	Employer	£1 – £8,112 per year	Nil
		£8,113 and above per year	13.8%
		Employment allowance	£3,000
Class 1A			13.8%
Class 2		£2.80 per week	
		Small profits threshold	£5,965
Class 4		£1 – £8,060 per year	Nil
		£8,061 – £43,000 per year	9%
		£43,001 and above per year	2%

**Rates of interest (assumed)**

Official rate of interest	3%
Rate of interest on underpaid tax	3%
Rate of interest on overpaid tax	0.50%

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Section C begins on page 6.**

**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 15 December 2016.

Zhi has been self-employed since 2000, preparing accounts to 31 December. On 1 December 2016, Zhi purchased a new freehold warehouse for £164,000 for use in his business, but this purchase has resulted in Zhi having cash flow problems. He has various tax payments becoming due over the next two months, and would like to reduce or postpone these payments as much as possible.

**Income tax and national insurance contributions (NICs)**

Zhi's income tax liabilities and class 4 NICs for the tax years 2014–15, 2015–16 and 2016–17 are, or are forecast to be:

	2014–15	2015–16	2016–17
	£	£	£
Income tax liability	25,200	27,600	18,000
Class 4 NICs	4,084	4,204	3,724

Zhi has not made any claims to reduce his payments on account.

**Capital gains tax (CGT)**

Zhi has a CGT liability of £12,980 becoming due for payment on 31 January 2017. This is in respect of a freehold office building which was sold for £210,000 on 10 December 2015, resulting in a chargeable gain of £76,000. The office building had always been used for business purposes by Zhi.

Zhi is a higher rate taxpayer. No claim has been made for rollover relief.

**Value added tax (VAT)**

Zhi has forecast that he will have to pay VAT of £20,200 on 7 February 2017 to HM Revenue and Customs (HMRC) in respect of the VAT quarter ended 31 December 2016.

On 12 December 2016, Zhi despatched goods relating to an exceptionally large credit sale of standard rated goods of £45,600 (inclusive of VAT). He has not yet issued a sales invoice for this sale.

Because the customer is unlikely to pay until 28 February 2017, Zhi is considering not issuing a sales invoice until 1 February 2017.

**PAYE and NICs**

Zhi will have to pay PAYE and NICs of £5,724 electronically on 22 January 2017 to HMRC in respect of his two employees for the tax month running from 6 December 2016 to 5 January 2017.

This includes amounts for bonuses which Zhi was planning to pay to his two employees on 1 January 2017, but could delay payment until 10 January 2017. The bonuses are in respect of the year ended 31 December 2016, and they will be treated as being received on whichever is the date of payment.

The first employee has a gross annual salary of £20,000 and is to be paid a bonus of £1,500. The second employee has a gross annual salary of £55,000 and is to be paid a bonus of £5,000.

**Required:**

- (a) Calculate the amount by which Zhi can claim to reduce his self-assessment income tax and NICs due for payment on 31 January 2017 without incurring interest or penalties. (2 marks)
- (b) Calculate the amount by which Zhi's CGT liability due for payment on 31 January 2017 will be reduced if he makes a claim for rollover relief based on the warehouse purchased on 1 December 2016 for £164,000. (3 marks)
- (c) Explain whether Zhi can reduce the amount of VAT payable on 7 February 2017 by not issuing a sales invoice for the credit sale of £45,600 until 1 February 2017, and, if so, by how much the payment will be reduced. (2 marks)
- (d) Calculate the amount by which Zhi's PAYE and NICs due on 22 January 2017 will be reduced if he delays the payment of employee bonuses until 10 January 2017, and state when the postponed amount will be payable.

Note: Your calculations should be based on annual income tax and NIC thresholds. (3 marks)

**(10 marks)**

**32** Petula has been employed as a sales manager by Downtown plc since 6 April 2009. The following information is available in respect of the tax year 2016–17:

- (1) During the tax year 2016–17, Petula was paid a gross annual salary of £230,000.
- (2) In addition to her salary, Petula has been paid the following bonuses by Downtown plc:

Amount £	Date of payment	Date of entitlement	In respect of the six-month period ended
21,200	30 April 2016	1 April 2016	31 December 2015
18,600	31 October 2016	1 October 2016	30 June 2016
22,400	30 April 2017	1 April 2017	31 December 2016

- (3) During the tax year 2016–17, Petula used her private motor car for both private and business journeys. The total mileage driven by Petula throughout the tax year was 26,000 miles, with all of this mileage reimbursed by Downtown plc at the rate of 60p per mile. However, only 21,000 miles were in the performance of Petula's duties for Downtown plc.
- (4) Petula pays an annual professional subscription of £630 which is relevant to her employment with Downtown plc. Petula also pays an annual subscription membership fee of £1,840 to a golf club which she uses to entertain Downtown plc's clients. Downtown plc does not reimburse Petula for either of these costs.
- (5) During the tax year 2016–17, Petula paid interest of £140 on a personal loan taken out on 6 April 2016 to purchase a computer for sole use in her employment with Downtown plc.
- (6) Each tax year since 6 April 2009 (including the tax year 2016–17), Downtown plc has contributed £30,000 into the company's HM Revenue and Customs' registered money purchase occupational pension scheme on Petula's behalf. Petula has never personally made any pension contributions.
- (7) Petula owns a freehold house which was let out furnished throughout the tax year 2016–17. The total amount of rent received during the tax year was £12,000.

During August 2016, Petula purchased a new washer-dryer for the property at a cost of £730. This was a replacement for an old washing machine which was scrapped, with nil proceeds. The cost of a similar washing machine would have been £420.

During November 2016, Petula purchased a new dishwasher for the property at a cost of £580. The property did not previously have a dishwasher.

The other expenditure on the property for the tax year 2016–17 amounted to £1,640, and all of this is allowable.

- (8) During the tax year 2016–17, Petula rented out one furnished room of her main residence. During the year, she received rent of £8,900 and incurred allowable expenditure of £2,890 in respect of the room. Petula always uses the most favourable basis as regards the tax treatment of the furnished room.
- (9) On 1 July 2016, Petula purchased £250,000 (nominal value) of gilts paying interest at the rate of 3% for £300,000. Interest is paid half-yearly on 30 June and 31 December based on the nominal value. Petula sold the gilts on 31 October 2016 for £302,500 (including accrued interest).

**Required:**

- (a) Calculate Petula's taxable income for the tax year 2016–17.**

Note: Your computation should list all of the items referred to in notes (1) to (9), indicating with the use of zero (0) any items which are not taxable or deductible. (12 marks)

- (b) Advise Petula of the total amount of her unused pension annual allowances which are available to carry forward to the tax year 2017–18.** (3 marks)

**(15 marks)**



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Question 33 begins on page 10.**

**33** The following information is available in respect of Online Ltd for the year ended 31 March 2017:

#### **Operating profit**

Online Ltd's operating profit for the year ended 31 March 2017 is £896,700. Depreciation of £21,660 and amortisation of leasehold property of £9,000 (see the leasehold property note below) have been deducted in arriving at this figure.

#### **Leasehold property**

On 1 April 2016, Online Ltd acquired a leasehold office building, paying a premium of £90,000 for the grant of a ten-year lease. The office building was used for business purposes by Online Ltd throughout the year ended 31 March 2017.

#### **Plant and machinery**

On 1 April 2016, the tax written down values of plant and machinery were as follows:

	£
Main pool	56,700
Special rate pool	12,400

The following transactions took place during the year ended 31 March 2017:

		Costs/(proceeds)
		£
14 May 2016	Sold a motor car	(18,100)
18 July 2016	Sold all items included in the special rate pool	(9,300)
27 January 2017	Purchased a motor car	13,700

The motor car sold on 14 May 2016 for £18,100 was originally purchased during the year ended 31 March 2016 for £17,200. This expenditure was added to the main pool.

The motor car purchased on 27 January 2017 for £13,700 has a CO<sub>2</sub> emission rate of 90 grams per kilometre. The motor car is used as a pool car by the company's employees.

#### **Qualifying charitable donations**

During the year ended 31 March 2017, Online Ltd made qualifying charitable donations of £6,800. These were not included in arriving at the operating profit above.

#### **Disposal of shareholding in Network plc**

On 20 March 2017, Online Ltd sold its entire shareholding of £1 ordinary shares in Network plc for £90,600. Online Ltd had originally purchased 40,000 shares (less than a 1% shareholding) in Network plc on 24 June 2010 for £49,300. On 7 October 2013, Online Ltd sold 22,000 of the shares for £62,200.

Indexation factors are as follows:

June 2010 to October 2013	0.124
June 2010 to March 2017	0.170
October 2013 to March 2017	0.040

#### **Brought forward losses**

As at 1 April 2016, Online Ltd had the following brought forward amounts of unused losses:

	£
Capital loss	4,700
Property business loss	12,500

#### **Planned acquisition**

Online Ltd currently does not have any 51% group companies. However, Online Ltd is planning to acquire a 60% shareholding in Offline Ltd in the near future. Offline Ltd is profitable and will pay regular dividends to Online Ltd.

**Required:**

- (a) Calculate Online Ltd's taxable total profits for the year ended 31 March 2017. (13 marks)
- (b) Briefly explain how the acquisition of Offline Ltd will affect the calculation and payment of Online Ltd's corporation tax liability in future years. (2 marks)

**(15 marks)**

**End of Question Paper**