

Fundamentals Level – Skills Module

Taxation (United Kingdom)

Monday 1 June 2009

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)

The ACCA logo consists of the letters 'ACCA' in a bold, white, sans-serif font, centered within a solid black square.

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 – £34,800	20
Higher rate	£34,801 and above	40

A starting rate of 10% applies to savings income where it falls within the first £2,320 of taxable income.

	Personal allowance	
Personal allowance	Standard	£6,035
Personal allowance	65 – 74	£9,030
Personal allowance	75 and over	£9,180
Income limit for age related allowances		£21,800

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 £235,000

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

	%
Plant and machinery	
Writing-down allowance – General pool	20
– Special rate pool	10
First-year allowance – Low emission motor cars (CO ₂ emissions of less than 110 grams per kilometre)	100
Annual investment allowance for the first £50,000 of expenditure	100
Industrial buildings	
Writing-down allowance	3

Corporation tax

Financial year	2006	2007	2008
Small companies rate	19%	20%	21%
Full rate	30%	30%	28%
Lower limit	300,000	300,000	300,000
Upper limit	1,500,000	1,500,000	1,500,000
Marginal relief fraction	11/400	1/40	7/400

Marginal relief

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

Value added tax

Standard rate	17.5%
Registration limit	£67,000
Deregistration limit	£65,000

Capital gains tax

Rate of tax	18%
Annual exemption	£9,600
Entrepreneurs' relief – Lifetime limit	£1,000,000
– Relief factor	4/9ths

National insurance contributions

(Not contracted out rates)

			%
Class 1	Employee	£1 – £5,435 per year	Nil
		£5,436 – £40,040 per year	11.0
		£40,041 and above per year	1.0
Class 1	Employer	£1 – £5,435 per year	Nil
		£5,436 and above per year	12.8
Class 1A			12.8
Class 2		£2.30 per week	
Class 4		£1 – £5,435 per year	Nil
		£5,436 – £40,040 per year	8.0
		£40,041 and above per year	1.0

Rates of interest

Official rate of interest:

6·25%

Rate of interest on underpaid tax:

7·5% (assumed)

Rate of interest on overpaid tax:

3·0% (assumed)

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Question 1 begins on page 6.**

ALL FIVE questions are compulsory and MUST be attempted

1 Domingo, Erigo and Fargo Gomez are three brothers. The following information is available for the tax year 2008–09:

Domingo Gomez

- (1) Domingo is aged 67.
- (2) During the tax year 2008–09 he received the state pension of £4,500 and a private pension of £2,300.
- (3) In addition to his pension income Domingo received building society interest of £14,400 and interest of £600 on the maturity of a savings certificate from the National Savings and Investments Bank during the tax year 2008–09. These were the actual cash amounts received.
- (4) During the tax year 2008–09 Domingo made donations of £300 (gross) to local charities. These were not made under the gift aid scheme.

Erigo Gomez

- (1) Erigo is aged 56.
- (2) He is employed as a business journalist by Economical plc, a magazine publishing company. During the tax year 2008–09 Erigo was paid a gross annual salary of £36,000.
- (3) During the tax year 2008–09 Erigo used his private motor car for business purposes. He drove 18,000 miles in the performance of his duties for Economical plc, for which the company paid an allowance of 20 pence per mile.
- (4) During June 2008 Economical plc paid £11,400 towards the cost of Erigo's relocation when he was required to move his place of employment. Erigo's previous main residence was 140 miles from his new place of employment with the company. The £11,400 covered the cost of disposing of Erigo's old property and of acquiring a new property.
- (5) Erigo contributed 6% of his gross salary of £36,000 into Economical plc's HM Revenue and Customs' registered occupational pension scheme.
- (6) During the tax year 2008–09 Erigo donated £100 (gross) per month to charity under the payroll deduction scheme.

Fargo Gomez

- (1) Fargo is aged 53.
- (2) He commenced self-employment as a business consultant on 6 July 2008. Fargo's tax adjusted trading profit based on his draft accounts for the nine-month period ended 5 April 2009 is £64,800. This figure is **before** making any adjustments required for:
 - (i) Advertising expenditure of £2,600 incurred during May 2008. This expenditure has not been deducted in calculating the profit of £64,800.
 - (ii) Capital allowances.
- (3) The only item of plant and machinery owned by Fargo is his motor car. This cost £11,000 on 6 July 2008. During the nine-month period ended 5 April 2009 Fargo drove a total of 24,000 miles, of which 8,000 were for private journeys.
- (4) During the tax year 2008–09 Fargo contributed £5,200 (gross) into a personal pension scheme, and made gift aid donations totalling £2,400 (net) to national charities.

Tax returns

For the tax year 2008–09 Domingo wants to file a paper self-assessment tax return and have HM Revenue and Customs prepare a self-assessment on his behalf. Erigo also wants to file a paper tax return but will prepare his own self-assessment. Fargo wants to file his tax return online.

Required:

(a) Calculate the respective income tax liabilities for the tax year 2008–09 of:

- (i) Domingo Gomez;** (6 marks)
- (ii) Erigo Gomez;** (6 marks)
- (iii) Fargo Gomez.** (7 marks)

(b) Advise Domingo, Erigo and Fargo Gomez of the latest dates by which their respective self-assessment tax returns for the tax year 2008–09 will have to be submitted given their stated filing preferences. (3 marks)

(c) Advise Domingo, Erigo and Fargo Gomez as to how long they must retain the records used in preparing their respective tax returns for the tax year 2008–09, and the potential consequences of not retaining the records for the required period. (3 marks)

(25 marks)

- 2 Gastron Ltd, a United Kingdom resident company, is a luxury food manufacturer. The company's summarised profit and loss account for the year ended 31 March 2009 is as follows:

	Note	£	£
Gross profit			876,500
Operating expenses			
Depreciation		85,660	
Amortisation of leasehold property	1	6,000	
Gifts and donations	2	2,700	
Professional fees	3	18,800	
Other expenses	4	230,240	
			<u>(343,400)</u>
Operating profit			533,100
Income from investments			
Income from property	5	20,600	
Bank interest	6	12,400	
Dividends	7	54,000	
			<u>87,000</u>
Profit from sale of fixed assets			
Disposal of shares	8		80,700
			<u>700,800</u>
Interest payable	9		<u>(60,800)</u>
Profit before taxation			<u>640,000</u>

Note 1 – Leasehold property

On 1 April 2008 Gastron Ltd acquired a leasehold office building, paying a premium of £60,000 for the grant of a new ten-year lease. The office building was used for business purposes by Gastron Ltd throughout the year ended 31 March 2009. No legal costs were incurred by Gastron Ltd in respect of this lease.

Note 2 – Gifts and donations

Gifts and donations are as follows:

	£
Gifts to customers (pens costing £60 each and displaying Gastron Ltd's name)	1,200
Gifts to customers (hampers of food costing £25 each)	1,100
Donation to local charity (Gastron Ltd received free advertising in the charity's magazine)	400
	<u>2,700</u>

Note 3 – Professional fees

Professional fees are as follows:

	£
Legal fees in connection with the renewal of a 45-year property lease in respect of a warehouse	3,600
Legal fees in connection with the issue of debentures (see note 9)	15,200
	<u>18,800</u>

Note 4 – Other expenses

The figure of £230,240 for other expenses includes £1,300 for entertaining suppliers and £900 for entertaining employees.

Note 5 – Income from property

Gastron Ltd lets out the whole of an unfurnished freehold office building that is surplus to requirements. The office building was let from 1 April 2008 to 31 December 2008 at a monthly rent of £1,800, payable in advance. On 31 December 2008 the tenant left owing two months' rent which Gastron Ltd was unable to recover. During January 2009 the company spent £3,700 decorating the property. The office building was then re-let from 1 February 2009 at a monthly rent of £1,950, on which date the new tenant paid six months' rent in advance.

Note 6 – Bank interest received

The bank interest was received on 31 March 2009. The bank deposits are held for non-trading purposes.

Note 7 – Dividends received

During the year ended 31 March 2009 Gastron Ltd received dividends of £36,000 from Tasteless plc, an unconnected UK company, and dividends of £18,000 from Culinary Ltd, a 100% UK subsidiary company (see note 11). Both figures are the actual cash amounts received.

Note 8 – Profit on disposal of shares

The profit on disposal of shares is in respect of a 1% shareholding that was sold on 14 October 2008. The disposal resulted in a chargeable gain of £74,800. This figure is after taking account of indexation.

Note 9 – Interest payable

The interest payable is in respect of the company's 5% debenture loan stock that was issued on 1 April 2008. The proceeds of the issue were used to finance the company's trading activities. Interest of £30,400 was paid on 30 September 2008 and again on 31 March 2009.

Note 10 – Plant and machinery

On 1 April 2008 the tax written down values of plant and machinery were as follows:

	£
General pool	16,700
Expensive motor car	18,400

The following transactions took place during the year ended 31 March 2009:

		Cost/(Proceeds)
		£
19 May 2008	Purchased equipment	21,600
12 July 2008	Purchased motor car (1)	9,800
11 August 2008	Purchased motor car (2)	16,200
5 October 2008	Purchased a lorry	17,200
5 March 2009	Sold equipment	(3,300)

Motor car (2), purchased on 11 August 2008 for £16,200, is a low emission motor car (CO2 emission rate of less than 110 grams per kilometre). The equipment sold on 5 March 2009 for £3,300 was originally purchased in 2004 for £8,900.

Note 11 – Subsidiary company

Gastron Ltd owns 100% of the ordinary share capital of Culinary Ltd. On 13 February 2009 Culinary Ltd sold a freehold factory and this resulted in a capital loss of £66,000. For the year ended 31 March 2009 Culinary Ltd made no other disposals and paid corporation tax at the small company rate of 21%.

Required:

- (a) Calculate Gastron Ltd's tax adjusted trading profit for the year ended 31 March 2009, after deducting capital allowances.

Note: your computation should commence with the profit before taxation figure of £640,000, and should list all of the items referred to in notes (1) to (9) indicating by the use of zero (0) any items that do not require adjustment. (15 marks)

- (b) Calculate Gastron Ltd's corporation tax liability for the year ended 31 March 2009, on the basis that no election is made between Gastron Ltd and Culinary Ltd in respect of capital gains. (7 marks)

- (c) State the date by which Gastron Ltd's corporation tax liability for the year ended 31 March 2009 should be paid, and advise the company of the interest that will be due if the liability is not paid until 31 August 2010. (3 marks)

- (d) Explain the group relationship that must exist in order for two or more companies to form a group for capital gains purposes. (2 marks)

- (e) State the time limit for Gastron Ltd and Culinary Ltd to make a joint election such that Culinary Ltd is treated as disposing of Gastron Ltd's shares (see note 8), and explain why such an election will be beneficial. (3 marks)

(30 marks)

3 Nim and Mae Lom are a married couple. They disposed of the following assets during the tax year 2008–09:

Nim Lom

(1) On 20 May 2008 Nim made a gift of 10,000 £1 ordinary shares in Kapook plc to his daughter. On that date the shares were quoted on the Stock Exchange at £3·70–£3·90, with recorded bargains of £3·60, £3·75 and £3·80. Nim has made the following purchases of shares in Kapook plc:

19 February 2000	8,000 shares for £16,200
6 June 2005	6,000 shares for £14,600
24 May 2008	2,000 shares for £5,800

Nim's total shareholding was less than 5% of Kapook plc, and so holdover relief is not available.

(2) On 13 June 2008 Nim transferred his entire shareholding of 5,000 £1 ordinary shares in Jooba Ltd, an unquoted company, to his wife, Mae. On that date the shares were valued at £28,200. Nim's shareholding had been purchased on 11 January 2006 for £16,000.

(3) On 26 November 2008 Nim sold an antique table for £8,700. The antique table had been purchased on 16 May 2005 for £5,200.

(4) On 2 April 2009 Nim sold UK Government securities (Gilts) for £12,400. The securities had been purchased on 18 August 2007 for £10,100.

Mae Lom

(1) On 28 August 2008 Mae sold 2,000 of the 5,000 £1 ordinary shares in Jooba Ltd that had been transferred to her from Nim (see (2) above). The sale proceeds were £30,400. Entrepreneurs' relief is not available in respect of this disposal.

(2) On 30 September 2008 Mae sold a house for £186,000. The house had been purchased on 1 October 1998 for £122,000. Throughout the period of ownership the house was occupied by Nim and Mae as their main residence, but one of the house's eight rooms was always used exclusively for business purposes by Mae. Entrepreneurs' relief is not available in respect of this disposal.

(3) On 30 November 2008 Mae sold a business that she had run as a sole trader since 1 December 2000. The sale resulted in the following capital gains:

	£
Goodwill	80,000
Freehold office building	136,000
Investment property	34,000

The assets were all owned for more than one year prior to the date of disposal. The investment property has always been rented out.

Mae claimed entrepreneurs' relief in respect of this disposal.

(4) On 31 March 2009 Mae sold a copyright for £9,600. The copyright had been purchased on 1 April 2004 for £10,000 when it had an unexpired life of 20 years.

Other information

Nim does not have any taxable income for the tax year 2008–09. He has unused capital losses of £16,700 brought forward from the tax year 2007–08.

Mae has taxable income of £50,000 for the tax year 2008–09. She has unused capital losses of £8,500 brought forward from the tax year 2007–08.

Required:

Compute Nim and Mae Lom's respective capital gains tax liabilities, if any, for the tax year 2008-09. In each case, the amount of unused capital losses carried forward to future tax years, if any, should be clearly identified.

(20 marks)

4 Anne Attire runs a retail clothing shop. She is registered for value added tax (VAT), and is in the process of completing her VAT return for the quarter ended 30 November 2008.

The following information is available (all figures are exclusive of VAT):

- (1) Cash sales amounted to £42,000, of which £28,000 was in respect of standard rated sales and £14,000 was in respect of zero-rated sales.
- (2) Sales invoices totalling £12,000 were issued in respect of credit sales. These sales were all standard rated. Anne offers all of her credit sale customers a 5% discount for payment within one month of the date of the sales invoice, and 90% of the customers pay within this period. The sales figure of £12,000 is stated before any deduction for the 5% discount.
- (3) Purchase and expense invoices totalling £19,200 were received from VAT registered suppliers. This figure is made up as follows:

	£
Standard rated purchases and expenses	11,200
Zero rated purchases	6,000
Exempt expenses	2,000
	<hr/>
	19,200

Anne pays all of her purchase and expense invoices two months after receiving the invoice.

- (4) On 30 November 2008 Anne wrote off two impairment losses (bad debts) that were in respect of standard rated credit sales. The first impairment loss was for £300, and was in respect of a sales invoice due for payment on 15 July 2008. The second impairment loss was for £800, and was in respect of a sales invoice due for payment on 10 April 2008.

Anne does not use the cash accounting scheme.

Anne will soon be 60 years old and is therefore considering retirement. On the cessation of trading Anne can either sell the fixed assets of her business on a piecemeal basis to individual VAT registered purchasers, or she can sell the entire business as a going concern to a single VAT registered purchaser.

Required:

- (a) **Calculate the amount of VAT payable by Anne Attire for the quarter ended 30 November 2008, and state the date by which the VAT return for this period was due for submission.** (6 marks)
- (b) **State the conditions that Anne Attire must satisfy before she will be permitted to use the cash accounting scheme, and advise her of the implications of using the scheme.** (5 marks)
- (c) **Advise Anne Attire as to what will happen to her VAT registration, and whether output VAT will be due in respect of the fixed assets, if she ceases trading and then:**
 - (i) **Sells her fixed assets on a piecemeal basis to individual VAT registered purchasers;** (2 marks)
 - (ii) **Sells her entire business as a going concern to a single VAT registered purchaser.** (2 marks)

(15 marks)

- 5** Andrew Zoom is a cameraman who started working for Slick-Productions Ltd on 6 April 2008. The following information is available in respect of the year ended 5 April 2009:
- (1) Andrew received gross income of £50,000 from Slick-Productions Ltd. He works a set number of hours each week and is paid an hourly rate for the work that he does. When Andrew works more than the set number of hours he is paid overtime.
 - (2) Andrew is under an obligation to accept the work offered to him by Slick-Productions Ltd, and the work is carried out under the control of the company's production manager. He is obliged to do the work personally, and this is all performed at Slick-Productions Ltd's premises.
 - (3) All of the equipment that Andrew uses is provided by Slick-Productions Ltd.

Andrew has several friends who are cameramen, and they are all treated as self-employed. He therefore considers that he should be treated as self-employed as well in relation to his work for Slick-Productions Ltd.

Required:

- (a) List those factors that indicate that Andrew Zoom should be treated as an employee in relation to his work for Slick-Productions Ltd rather than as self-employed.**

Note: you should confine your answer to the information given in the question. (4 marks)

- (b) Calculate Andrew Zoom's income tax liability and national insurance contributions for the tax year 2008–09 if he is treated:**

- (i) As an employee in respect of his work for Slick-Productions Ltd;**

Note: You are not required to calculate employers' national insurance contributions. (3 marks)

- (ii) As self-employed in respect of his work for Slick-Productions Ltd.**

(3 marks)

(10 marks)

End of Question Paper