

FOUNDATIONS IN ACCOUNTANCY

# Foundations in Taxation (United Kingdom)

Monday 11 June 2012



**Time allowed:** 2 hours

This paper is divided into two sections:

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

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

Tax rates and allowances are on pages 2–4.

**Do NOT open this paper until instructed by the supervisor.**

**This question paper must not be removed from the examination hall.**

The Association of Chartered Certified Accountants

Paper FTX (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
Income limit for standard personal allowance	£100,000

### Car benefit percentage

The base level of CO<sub>2</sub> emissions is 125 grams per kilometre.

A rate of 5% applies to petrol cars with CO<sub>2</sub> emissions of 75 grams per kilometre or less, and a rate of 10% applies to petrol cars with CO<sub>2</sub> emissions between 76 and 120 grams per kilometre.

### Car fuel benefit

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

### Pension scheme limit

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	20
Special rate pool	10

### Motor cars

(purchases since 6 April 2009 (1 April 2009 for limited companies))

New cars with CO <sub>2</sub> emissions up to 110 grams per kilometre	100
CO <sub>2</sub> emissions between 111 and 160 grams per kilometre	20
CO <sub>2</sub> emissions over 160 grams per kilometre	10

### Annual investment allowance

First £100,000 of expenditure	100
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### 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

### Capital gains tax

Rate 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 limit	£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

Where weekly or monthly calculations are required the Class 1 limits shown above should be divided by 52 (weekly) or 12 (monthly) as applicable.

**Official rate of interest (assumed)**

4·0%

**Section A – ALL TEN 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.

**1 Which of the following forms must be given to an employee when they leave employment?**

- A P45
- B P60

**(1 mark)**

**2** Emma's employer provided Emma with private medical insurance on 6 April 2011. The annual cost of this insurance for the employer is £1,200, but would cost Emma £1,500 per year if Emma arranged the insurance herself.

**What is Emma's total taxable benefit in respect of the medical insurance for the tax year 2011–12?**

- A £1,200
- B £1,500
- C £240
- D £300

**(2 marks)**

**3** On 6 April 2011, Jamie's employer provided Jamie with a company car and it has been used by Jamie for both private and business use since that date. The car had a list price of £18,000 but had only cost the employer £16,000. Jamie paid £6,000 towards the capital cost of the car. The relevant car benefit percentage is 20%. Jamie earns £50,000 per year.

**What is Jamie's total taxable benefit in respect of the car for the tax year 2011–12?**

- A £2,000
- B £2,400
- C £2,600
- D £2,200

**(3 marks)**

**4** A Ltd has always paid tax at the main rate. The total corporation tax due for the years ended 31 March 2011 and 31 March 2012 was £800,000 and £600,000 respectively.

**How much corporation tax should A Ltd have paid on 14 October 2011?**

- A £200,000
- B £150,000

**(1 mark)**

**5 Which of the following statements is TRUE?**

- A** Interest paid by one company to another is always paid net of income tax at 20%
- B** Companies may have chargeable accounting periods of any length
- C** Companies must keep their tax records for five years after the end of their chargeable accounting periods
- D** Companies paying corporation tax at the small profits rate should pay their corporation tax nine months and one day after the end of the chargeable accounting period

**(2 marks)**

**6** A company has included the following items in its income statement for the year ended 31 December 2011.

Legal expenses in respect of the acquisition of a new 40-year lease on its factory	£3,000
Cost of registering a new patent	£5,000
Write off of an irrecoverable debt in respect of a loan to a former employee	£4,000
A donation to a local charity	£1,000

**How much should the company add back to its accounting profit to arrive at its adjusted taxable trading income for the year ended 31 December 2011?**

- A** £7,000
- B** £8,000
- C** £9,000
- D** £5,000

**(3 marks)**

**7** Craig has a chargeable gain of £300,000 in the tax year 2011–12. The gain qualifies for entrepreneurs' relief. Craig has taxable income of £60,000 for the tax year 2011–12.

**What rate of capital gains tax will be applied to the chargeable gain?**

- A** 10%
- B** 28%

**(1 mark)**

**8** KPL Ltd sold 15,000 shares in S Ltd on 15 November 2011 for £30,000. KPL Ltd had purchased the S Ltd shares at a cost of £8,000 in May 2003. The indexation factor between May 2003 and November 2011 was 0.485.

**What is KPL Ltd's chargeable gain on the disposal of the S Ltd shares?**

- A** £22,000
- B** £18,120
- C** £11,330
- D** £7,520

**(3 marks)**

- 9 John is a sole trader and is registered for value added tax (VAT). In December 2011, John sold inventory for £10,000 exclusive of VAT. The sale was standard rated. John gives a discount of 10% on sales if invoices are paid within 20 days and of 5% if invoices are paid within 30 days. The invoice for the sale in December was actually paid 25 days after it was due.

**How much VAT should John have added to the sale price of £10,000?**

- A £2,000
- B £1,900
- C £1,800
- D £1,583

**(2 marks)**

10 Which of the following statements is NOT TRUE?

- A To join the annual accounting scheme, a trader's taxable turnover, exclusive of value added tax (VAT), must not exceed £1,350,000
- B VAT invoices are not required for parking fees of up to £25 inclusive of VAT if purchased from cash operated machines
- C The VAT on the cost of a new car used by an employee for both private and business purposes cannot be reclaimed in full
- D A 2% reduction off the appropriate flat rate percentage is given in the first year a trader uses the flat rate scheme

**(2 marks)**

**Section B – ALL NINE questions are compulsory and MUST be attempted**

- 1 Hamish is an employee. Hamish received a salary of £180,000 in the tax year 2011–12. In addition to his salary, the only other income Hamish received in the tax year 2011–12 was:

Dividends from a UK company	£900
Interest from the Abfax building society	£1,600

The following information is also relevant to the tax year 2011–12:

Gift aid donation paid	£1,200
Occupational pension scheme contributions paid by Hamish	£14,000
Occupational pension scheme contributions paid by Hamish's employer	£8,000
Income tax deducted (under PAYE) from Hamish's salary	£59,400

**Required:**

**Calculate the income tax payable by Hamish for the tax year 2011–12.**

**(15 marks)**

- 2 Bramble plc owns 25% of the share capital of Thorn plc and 80% of the share capital of Nettle plc.

Bramble plc had the following results for the year ended 31 March 2012:

	£
Adjusted trading profit (before capital allowances)	720,000
Chargeable gains	14,000
Interest received on investments	22,000
Dividends received from Thorn plc	9,000
Interest paid on underpaid tax	4,000
Donation to a charity under the gift aid scheme	1,000

Capital allowances of £40,000 were claimed for the year ended 31 March 2012.

Bramble plc had a capital loss of £3,000 and a trading loss of £120,000 brought forward as at 1 April 2011.

**Required:**

**Calculate the corporation tax payable by Bramble plc for the year ended 31 March 2012 and state the due date of payment.**

**(15 marks)**



**3** Digweed Ltd prepares accounts annually to 31 March.

During the accounting year ended 31 March 2012, Digweed Ltd purchased and disposed of the following items of plant and machinery:

**Purchases:**

15 May 2011                    A machine was purchased for £150,000.  
18 August 2011                A car with a CO<sub>2</sub> emission rate of 168 grams per km was purchased for £22,000.  
16 December 2011            A computer with a useful life of six years was purchased for £12,000.

The computer is to be treated as a short life asset.

**Disposals:**

12 June 2011                 A car, originally purchased in May 2007 for £26,000, was sold for £12,000. The tax written down value of this car on 1 April 2011 was £14,000.

The tax written down value of the main pool on 1 April 2011 was £190,000.

**Required:**

**Calculate the maximum capital allowances that Digweed Ltd can claim for the year ended 31 March 2012.**

Note: Ignore value added tax.

**(10 marks)**

**4** Marion disposed of the following capital assets in the tax year 2011–12:

15 May 2011                    A painting was sold for £7,500. Expenses of sale amounted to £1,300. The painting had originally cost Marion £2,800 in May 2006. The purchase costs amounted to £400.  
19 August 2011                An antique desk was sold for £31,000. The desk had been purchased in September 2007 for £6,400. There were no expenses of sale or purchase.

Marion's taxable income (for income tax purposes) after deduction of the personal allowance for the tax year 2011–12 was £28,400.

**Required:**

**Calculate the capital gains tax payable by Marion for the tax year 2011–12.**

**(10 marks)**

**5** Belinda is a sole trader. In the tax year 2011–12, Belinda sold a business asset to her daughter for £140,000 when the current market value was £200,000. The asset had cost Belinda £120,000 in August 2008. A joint claim for gift relief has been made.

**Required:**

**Calculate Belinda's chargeable gain on the disposal of the asset and the revised base cost for her daughter.**

**(6 marks)**

6 Bush Ltd prepares its value added tax (VAT) returns quarterly and files its returns online.

Transactions during the quarter ended 31 March 2012 were as follows:

Standard rated sales	£40,000
Zero-rated sales	£10,000
Inventory purchases	£24,000
Business expenses	£4,000

Purchases and expenses were all standard rated.

All figures are stated exclusive of VAT.

**Required:**

**Calculate the value added tax (VAT) that was payable by Bush Ltd to HM Revenue and Customs (HMRC) for the quarter ended 31 March 2012 and state the latest date by which it can be paid without incurring a penalty.**

**(6 marks)**

7 Heather Ltd prepares accounts annually to 31 December.

The company's results for the last three years have been:

	Trading income	Property income
	£	£
Year ended 31 December 2009	20,000	12,000
Year ended 31 December 2010	(60,000)	12,000
Year ended 31 December 2011	6,000	7,000

**Required:**

**Calculate the taxable total profits for each accounting period, assuming that Heather Ltd claims for the loss to be used as early as possible. State the amount of any loss carried forward as at 31 December 2011.**

**(6 marks)**

8 Percy started to trade as a sole trader on 1 September 2009. Percy decided to prepare accounts to 31 January each year. Percy's results for his first two periods of account were as follows:

	£
17 months to 31 January 2011	34,000
12 months to 31 January 2012	48,000

**Required:**

**Calculate Percy's assessable trading profits for each of the three tax years affected by the above accounting results, clearly stating the basis periods that apply.**

Note: You are not required to calculate the overlap profits.

**(6 marks)**

9 Z Ltd calculated its corporation tax for the year ended 31 March 2012 as follows:

	<b>£</b>
Total taxable profits	800,000
Franked investment income	200,000
	1,000,000
	1,000,000
£800,000 x 26%	208,000
Marginal relief:	
$(£1,500,000 - £1,000,000) \times \frac{£800,000}{£1,000,000} \times \frac{3}{200}$	(6,000)
	202,000
	202,000

**Required:**

Using the figures above state, in your answer booklet, the entry that would appear in each of the boxes shown in the following extract taken from the corporation tax return (CT600).

37 Taxable total profits		37   £	
Tax calculation			
38 Franked investment income	38   £		
39 Number of associated companies in this period	39		
42 Put an 'x' in box 42 if the company claims to be charged at the starting rate or the small profits rate on any part of its profits, or is claiming marginal rate relief		42	
Enter how much profit has been charged and at what rate of tax			
Financial year (yyyy)	Amount of profit	Rate of tax	Tax
43	44   £	45	46   £
64 Marginal rate relief		64   £	
65 Corporation tax net of marginal rate relief		65   £	

(6 marks)

End of Question Paper

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# Answers

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Section A

- 1 A Form P45 is a four-part form given to employees when they leave employment. Form P60 is the form given to each employee at the end of the tax year, which shows the amount of tax and national insurance contributions deducted from the employee during the tax year. 1
- 2 A The correct calculation of the benefit is to use the cost to the employer, not the amount saved by the employee. 2
- 3 C The correct calculation of the benefit is to use the list price (not purchase price) less a maximum capital contribution of £5,000 multiplied by the relevant percentage, 20% in this case. The benefit is therefore £2,600  $\{(\pounds 18,000 - \pounds 5,000) \times 20\%$ . 3
- 4 B Companies that pay tax at the main rate usually pay tax under the quarterly payment system. Each payment is a quarter of the current year's estimated corporation tax liability. Therefore, the correct payment due on 14 October 2011 is £150,000  $(\pounds 600,000/4)$ . 1
- 5 D Interest paid between UK companies is normally paid gross. Chargeable accounting periods cannot be longer than 12 months. Records must be kept for six years from the end of the chargeable accounting period. The payment date for companies not paying tax at the main rate is always nine months and one day after the end of the chargeable accounting period; therefore, the correct answer is D. 2
- 6 A Legal expenses in respect of leases are only deductible if they relate to the renewing of a short lease. The cost of registering a patent is specifically allowed by statute. A debt written off in respect of a former employee is accounted for under the non-trade loan relationship rules. A donation to a local charity would normally be an allowable deduction. The correct answer is therefore £7,000  $(\pounds 3,000 + \pounds 4,000)$ . 3
- 7 A All gains qualifying for entrepreneurs' relief are taxed at 10%. The employee's other income has no effect on this. 1
- 8 B The correct calculation is the proceeds less cost less indexation allowance. The indexation allowance is calculated by multiplying the indexation factor by the cost (not the gain). Companies are not entitled to the annual exempt amount. The chargeable gain is therefore £18,120  $\{ \pounds 30,000 - \pounds 8,000 - (\pounds 8,000 \times 0.485) \}$ . 3
- 9 C When calculating value added tax (VAT), traders must assume that customers will always take advantage of the maximum discount allowed. The VAT will be calculated on the selling price less 10%. The correct answer is therefore £1,800  $(\pounds 10,000 \times 90\% \times 20\%)$ . 2
- 10 D The annual accounting scheme is only available to traders with a tax exclusive turnover of £1,350,000 or less. Tax invoices are not required for parking fees of up to £25 if purchased from a cash machine. Value added tax (VAT) cannot be reclaimed if a car is used privately. Therefore the correct answer is D – the reduction for the first year of the flat rate scheme is 1% – not 2%. 2

**(20 marks)**

## Section B

Marks

1

## Hamish – Income tax payable for the tax year 2011–12

	Non-savings income £	Savings income £	Dividend income £	Total £	
Salary	180,000				0.5
Pension contributions*	(14,000)				1
	<u>166,000</u>				
Building society interest (£1,600 x 100/80)		2,000			1.5
Dividend (£900 x 100/90)			1,000		1.5
Net income	<u>166,000</u>	<u>2,000</u>	<u>1,000</u>	<u>169,000</u>	
Personal allowance**	nil				1.5
Taxable income	<u>166,000</u>	<u>2,000</u>	<u>1,000</u>	<u>169,000</u>	
* Pension contributions paid by the company are exempt benefits.					0.5
** Personal allowance is not available because net income is above £114,950.					
Extension of basic rate band £35,000 + (£1,200 x 100/80) = £36,500					2
Extension of higher rate limit (as for the basic rate band (£150,000 + £1,500) = £151,500					1
Tax payable:					
		£		£	
General income		36,500	x 20%	7,300	1
		<u>115,000</u>	x 40%	46,000	1
		151,500			
		14,500	x 50%	7,250	0.5
Savings income		2,000	x 50%	1,000	0.5
Dividend income		1,000	x 42.5%	425	1
				<u>61,975</u>	
Less tax deducted at source:					
Dividend credit (£1,000 x 10%)				(100)	0.5
Building society credit (£2,000 x 20%)				(400)	0.5
PAYE				<u>(59,400)</u>	0.5
Tax payable				<u><u>2,075</u></u>	<u><b>15</b></u>

2		Bramble plc – Corporation tax for the year ended 31 March 2012		
	£	£		
Trading profit	720,000			0.5
Capital allowances	<u>(40,000)</u>			1
Adjusted trading income	680,000			
Trading loss brought forward	<u>(120,000)</u>	560,000		1
Chargeable gain	14,000			1
Capital loss brought forward	<u>(3,000)</u>	11,000		1
Interest received	22,000			1
Interest paid	<u>(4,000)</u>	<u>18,000</u>		1
		589,000		
Charitable donation		<u>(1,000)</u>		1
Taxable total profits		588,000		
Franked investment income (FII) (£9,000 x 100/90)		<u>10,000</u>		1.5
Augmented profits		<u>598,000</u>		
Thresholds: £1,500,000/2 = £750,000				1
£300,000/2 = £150,000				1
Tax payable:				
£588,000 x 26%		152,880		1
(£750,000 – £598,000) x $\frac{£588,000}{£598,000} \times \frac{3}{200}$		<u>(2,242)</u>		2
		<u>150,638</u>		
Due date of payment: 1 January 2013				1
				<b>15</b>

3		Digweed Ltd – Capital allowances for the year ended 31 March 2012					
	Annual investment allowance £	Main pool £	Special rate pool £	Expensive car £	Short life asset £	Capital allowances £	
Balance brought forward		190,000		14,000			0.5
Purchases:							
– Machine	100,000	50,000					1.5
– Car			22,000				1
– Computer					12,000		1
Disposals:							
– Car				<u>(12,000)</u>			1
	<u>100,000</u>	<u>240,000</u>	<u>22,000</u>	<u>2,000</u>	<u>12,000</u>		
Annual investment allowance	(100,000)					100,000	1
Writing down allowance							
– 20%		(48,000)			(2,400)	50,400	2
– 10%			(2,200)			2,200	1
Balancing allowance				<u>(2,000)</u>		<u>2,000</u>	1
Balance carried forward	<u>nil</u>	<u>192,000</u>	<u>19,800</u>	<u>nil</u>	<u>9,600</u>		
Total capital allowances						<u>154,600</u>	
							<b>10</b>

		<b>Marks</b>	
<b>4</b>	<b>Marion – Capital gains tax for the tax year 2011–12</b>		
		<b>£</b>	
15 May 2011:	Proceeds	7,500	0·5
	Expenses of sale	(1,300)	0·5
	Net proceeds	<u>6,200</u>	
	Cost	(2,800)	0·5
	Expenses of purchases	(400)	0·5
		<u><u>3,000</u></u>	
	or:		
	5/3(£7,500 – £6,000)	<u>£2,500</u>	2
	Lower gain taken	<u><u>£2,500</u></u>	0·5
19 August 2011:	Proceeds	31,000	0·5
	Cost	(6,400)	0·5
	Gain	<u>24,600</u>	
Total gains (£2,500 + £24,600)		27,100	0·5
Annual exempt amount		(10,600)	1
		<u><u>16,500</u></u>	
Unused basic rate band: £35,000 – £28,400 = £6,600			1
Tax payable:			
		<b>£</b>	
First £6,600 x 18%		1,188	1
Next £9,900 x 28%		<u>2,772</u>	1
		<u><u>3,960</u></u>	
			<u><b>10</b></u>

<b>5</b>	<b>Belinda – Chargeable gain</b>		
		<b>£</b>	
Proceeds – market value		200,000	1
Cost		(120,000)	0·5
		<u>80,000</u>	
Gift relief (balancing figure)		(60,000)	1
Chargeable now (£140,000 – £120,000)		<u>20,000</u>	2
Base cost		200,000	1
Gift relief		(60,000)	0·5
Revised base cost		<u><u>140,000</u></u>	
			<u><b>6</b></u>

<b>6</b>	<b>Bush Ltd – Value added tax return for the quarter ended 31 March 2012</b>		
		<b>£</b>	
<b>Output tax:</b>			
Standard rated sales	£40,000 x 20%	8,000	1·5
Zero rated sales		<u>0</u>	1
		8,000	
<b>Input tax:</b>			
Inventory	£24,000 x 20%	(4,800)	1
Expenses	£4,000 x 20%	(800)	1
Value added tax payable		<u><u>2,400</u></u>	0·5
Latest date of payment: 7 May 2012			1
			<u><b>6</b></u>



7

## Heather Ltd – Loss relief for the three years to 31 December 2011

	Year ended 31 December 2009	Year ended 31 December 2010	Year ended 31 December 2011	
	£	£	£	
Trading income	20,000	nil	6,000	1
Brought forward claim			(6,000)	1
	<u>20,000</u>	<u>nil</u>	<u>nil</u>	
Property income	12,000	12,000	7,000	1
	<u>32,000</u>	<u>12,000</u>	<u>7,000</u>	
Current year claim		(12,000)		1
Prior year claim	(32,000)			1
Revised taxable total profits	<u>nil</u>	<u>nil</u>	<u>7,000</u>	
Loss memo:				
Year to 31 December 2010	60,000			
Current year claim	(12,000)			
Prior year claim	(32,000)			
Carried forward	16,000			
Brought forward claim	(6,000)			
Balance carried forward as at 31 December 2011	<u>10,000</u>			<u>1</u>
				<u>6</u>

8

## Percy – Opening year tax assessments

		£	
2009–10			0.5
	1 September 2009 – 5 April 2010 (Actual)		0.5
	7/17 x £34,000	<u>14,000</u>	1
2010–11			0.5
	1 February 2010 – 31 January 2011 (12 months to the accounting date)		1
	12/17 x £34,000	<u>24,000</u>	1
2011–12			0.5
	Year to 31 January 2012 (Current year basis)	<u>48,000</u>	1
			<u>6</u>

9

## Z Ltd – Corporation tax return for the year ended 31 March 2012

Box 37:	£800,000		
Box 38:	£200,000		
Box 39:	Nil		
Box 42:	X		
Box 43:	2011		
Box 44:	£800,000		
Box 45:	26%		
Box 46:	£208,000		
Box 64:	£6,000		
Box 65:	£202,000		
		½ mark for each of boxes 37, 38 and 43 to 65	4
		1 mark each for boxes 39 and 42	2
			<u>6</u>