

Taxation

Taxation (United Kingdom) TX-UK

Mock Exam 1 Questions (FA2021)

Time allowed: 3 hours 15 minutes

This exam is divided into three sections:

Section A

- 15 questions worth 2 marks each

Section B

- Three questions (each containing five objective test 2 mark questions), worth 10 marks each

Section C

- One 10 mark and two 15 mark questions

All questions are compulsory

Tax rates and allowances are included on pages 2 - 5

Car benefit percentage

The relevant base level of CO₂ emissions is 55 grams per kilometre.

The percentage rates applying to petrol-powered motor cars (and diesel-powered motor cars meeting the RDE2 standard) with CO₂ emissions up to this level are:

51 grams to 54 grams per kilometre	14%
55 grams per kilometre	15%

The percentage for electric-powered motor cars with zero CO₂ emissions is 1%.

For hybrid-electric motor cars with CO₂ emissions between 1 and 50 grams per kilometre, the electric range of the motor car is relevant:

Electric range

130 miles or more	1%
70 to 129 miles	4%
40 to 69 miles	7%
30 to 39 miles	11%
Less than 30 miles	13%

Car fuel benefit

The base figure for calculating the car fuel benefit is £24,600.

Company van benefits

The company van benefit scale charge is £3,500, and the van fuel benefit is £669.

Individual savings accounts (ISAs)

The overall investment limit is £20,000.

Property income

Basic rate restriction applies to 100% of finance costs relating to residential properties.

Pension scheme limits

Annual allowance	£40,000
Minimum allowance	£4,000
Threshold income limit	£200,000
Income limit	£240,000
Lifetime allowance	£1,073,100

The maximum contribution which can qualify for tax relief without any earnings is £3,600

Approved mileage allowances: cars

Up to 10,000 miles	45p
Over 10,000 miles	25p

Capital allowances: rates of allowance

Plant and machinery

Main pool	18%
Special rate pool	6%

Motor cars

New motor cars with zero CO ₂ emissions	100%
CO ₂ emissions between 1 and 50 grams per kilometre	18%
CO ₂ emissions over 50 grams per kilometre	6%

Annual investment allowance

Rate of allowance	100%
Expenditure limit	£1,000,000

Enhanced capital allowances for companies

Main pool super deduction	130%
Special rate pool first year allowance	50%

Structures and buildings allowance

Straight-line allowance	3%
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Cash basis accounting

Revenue limit	£150,000
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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		
	– Financial year 2021	19%
	– Financial year 2020	19%
	– Financial year 2019	19%
Profit threshold		£1,500,000

Value added tax (VAT)

Standard rate	20%
Registration limit	£85,000
Deregistration limit	£83,000

Inheritance tax: tax rates

Nil rate band	£325,000	
Residence nil rate band	£175,000	
Rate of tax on excess		
	– Lifetime rate	20%
	– Death rate	40%

Inheritance tax: taper relief

Years before death:	Percentage reduction
More than 3 but less than 4 years	20%
More than 4 but less than 5 years	40%
More than 5 but less than 6 years	60%
More than 6 but less than 7 years	80%

Capital gains tax: tax rates

	Normal rates	Residential property
Lower rate	10%	18%
Higher rate	20%	28%
Annual exempt amount		£12,300

Capital gains tax: business asset disposal relief (formerly entrepreneurs' relief) and investors' relief

Lifetime limit	– business asset disposal relief	£1,000,000
	– investors' relief	£10,000,000
Rate of tax		10%

National insurance contributions

Class 1	Employee	£1 – £9,568 per year	Nil
		£9,569 – £50,270 per year	12%
		£50,271 and above per year	2%
Class 1	Employer	£1 – £8,840 per year	Nil
		£8,841 and above per year	13.8%
		Employment allowance	£4,000
Class 1A			13.8%
Class 2		£3.05 per week	
Class 4		Small profits threshold	£6,515
		£1 – £9,568 per year	Nil
		£9,569 – £50,270 per year	9%
		£50,271 and above per year	2%

Rates of interest (assumed)

Official rate of interest	2.00%
Rate of interest on underpaid tax	2.60%
Rate of interest on overpaid tax	0.50%

Standard penalties for errors

Taxpayer behaviour	Maximum penalty	Minimum penalty – unprompted disclosure	Minimum penalty – prompted disclosure
Deliberate and concealed	100%	30%	50%
Deliberate but not concealed	70%	20%	35%
Careless	30%	0%	15%

Section A

This section of the exam contains **15 objective test questions**.

Each question is worth **2 marks** and is compulsory.

This exam section is worth **30 marks** in total.

- 1** During the tax year 2021-22, Anita's trading profit was £72,750.

What amount of Class 4 national insurance contributions will be payable by Anita for the tax year 2021-22?

Select..	▼
£3,663	
£4,113	
£4,974	
£5,334	

- 2** Jamie is self-employed and for the year ended 5 April 2022 his trading profit was £108,500. During the tax year 2021-22, Jamie made a personal pension contribution of £1,400 (net).

What amount of personal allowance will Jamie be entitled to for the tax year 2021-22?

£

- 3** On 22 January 2022, Josiah sold a painting for net proceeds of £39,000. The painting had been given to him by his wife on 7 May 2012 when it was valued at £26,000. She had inherited the painting from her father on 11 June 2010 when it was valued at £24,000. Her father had paid £10,000 for the painting on 9 December 1999.

What is Josiah's chargeable gain in respect of the painting given to him by his wife?

- £39,000
 £13,000
 £15,000
 £29,000

- 4** Adalynn has been self-employed for several years. She submitted her self-assessment tax return for the tax year 2020-21 on 2 August 2021. The tax due in respect of the tax return was £1,200.

Assuming no daily penalties are charged, what is the maximum late filing penalty which Adalynn would be liable for?

- £100
 £400
 £160
 £1,200

5 On 1 January 2022 Brian granted a 15-year lease to a company for a premium of £54,000.
On what amount will Brian be assessed in respect of the premium for the tax year 2021-22?

- £15,120
- £37,800
- £38,880
- £54,000

6 During the tax year 2021-22, Anastasia's only income is dividends received of £22,500.

What amount of income tax is payable for the tax year 2021-22?

£

7 Omah registered for VAT on 1 January 2022. He has annual standard-rated sales of £80,000 which are all made to the general public. He has annual standard-rated expenses of £12,000. Both figures are exclusive of value added tax (VAT). The relevant flat rate scheme percentage for Omah's trade is 13%.

What is the annual benefit to Omah if he chooses to use the flat rate scheme?

Note: you should ignore the 1% reduction that is available to businesses in their first year of registration.

£

8 Marvollo Ltd started trading on 1 April 2021 and prepared their first accounts to 31 March 2022. During the year ended 31 March 2022 the following costs were incurred:

	£
Integral features	1,100,000
Machinery & equipment	860,000

	1,960,000

What is the maximum amount of capital allowance which Marvollo Ltd can claim for the year ended 31 March 2022?

- £1,160,800
- £2,124,000
- £1,057,600
- £2,168,000

- 9** The internal auditor of I-Origins plc has discovered that the company underpaid £9,300 of value added tax (VAT) to HM Revenue and Customs (HMRC) for the year ended 31 March 2022. This was due to a careless incorrect treatment of services received from a VAT registered business situated within the UK.

I-Origins plc disclosed the underpayment of VAT by entering £9,300 on its next VAT return.

Indicate, by clicking on the relevant boxes in the table below, the maximum and minimum penalties which HM Revenue and Customs could charge in respect of the underpayment.

	Amount			
Maximum	£2,790	£4,650	£6,510	£9,300
Minimum	£0	£1,395	£1,860	£3,255

- 10** On 18 September 2021 Patrick sold eight hectares of land for £92,000. Patrick had originally purchased 14 hectares of land on 1 July 2011 for £108,600 and he sold six hectares of the land on 27 September 2013 for £37,800. The market value of the unsold eight hectares of land as at 27 September 2013 was £52,700. Patrick made no other capital disposals in the tax year 2021-22.

What is Patrick's taxable gain in respect of the sale of the eight hectares of land?

- £16,460
- £17,643
- £27,000
- £28,760

- 11** For the year ended 31 May 2022, King Ltd had taxable total profits of £500,000, and received the following dividends:

	£
From unconnected companies	10,000
From a 90% subsidiary company	12,000
From a 45% subsidiary company	5,000

What is the amount of King Ltd's profits for the year ended 31 May 2022 for the purposes of determining if it should pay corporation tax by instalments?

- £510,000
- £522,000
- £527,000
- £515,000

- 12** Toby died on 29 March 2022. His death estate was valued at £800,000, which included his private residence valued at £400,000, which has an outstanding interest only mortgage of £100,000 remaining on it. Toby left his estate to his son, as his wife had died in 2018. Toby's wife had previously shared the private residence with Toby.

What amount of residence nil rate band will be available on Toby's death estate?

- £400,000
- £350,000
- £175,000
- £300,000

13 Kutcher is VAT registered.

Kutcher's accounts for the quarter ended 31 March 2022 include the total cost of fuel for his car of £500 (VAT exclusive). Kutcher uses his car 70% for business purposes. The relevant VAT fuel scale charge is £394.

Indicate, by clicking on the relevant boxes in the table below, the correct VAT amounts for Kutcher for the quarter ended 31 March 2022 in respect of the fuel for his car.

	Amount	
Output VAT	£66	£79
Input VAT	£83	£100

14 High Ltd owns 75% of Low Ltd. High Ltd transferred a factory to Low Ltd during the year ended 31 March 2021. The market value of the factory at the time of the transfer was £500,000, and the original cost to High Ltd was £350,000. The relevant indexation allowance was £30,000.

What is the deemed acquisition cost of the factory for chargeable gains purposes for Low Ltd?

- £380,000
- £350,000
- £500,000
- £120,000

15 Eliana died on 1 October 2021. Her death estate was valued at £1,100,000. The inheritance tax liability in respect of the estate was £110,000. Eliana left £500,000 to her husband, and a specific tax free legacy of £300,000 to her daughter, with the residue of her estate being left to her granddaughter.

What amount of inheritance will Eliana's granddaughter receive?

Select...▼
£190,000
£300,000
£490,000
£990,000

(30 marks)

Section B

This section of the exam contains 15 questions (three scenarios each containing five 2 mark questions).

Each questions is compulsory.

This exam section is worth 30 marks in total.

The following scenario relates to questions 16–20.

Jeffrey died on 11 January 2022. At death his estate comprised chattels, quoted shares and cash valued at £1,580,000. Jeffrey had a life insurance policy which was valued at £250,000 on his death. The insurance proceeds paid to the executors of his estate were £375,000. At death Jeffrey owed unpaid income tax and capital gains taxes amounting to £24,000 and his funeral expenses were £7,000.

On 8 September 2016 Jeffrey had made a lifetime gift of £500,000 into a trust. The tax arising was paid by Jeffrey. This was his only lifetime transfer.

Jeffrey's wife, Stella, had died in June 2008. 20% of her nil rate band was unused and therefore available to be claimed by Jeffrey's personal representatives after his death.

Nil rate bands:

2008–09	£312,000
2009–10 onwards	£325,000

16 What amount of inheritance tax would have been payable in respect of Jeffrey's lifetime gift into trust? (Ignore any exemptions which may have been available.)

£

17 What will be the amount of Jeffrey's gross chargeable estate on death?

- £1,924,000
- £1,948,000
- £1,799,000
- £1,931,000

18 Jeffrey's gift into trust will be recalculated as a result of his death using the higher death rate but with the liability reduced by the application of taper relief.

Which TWO of the following statements about this calculation are correct?

- The unused nil rate band claimed in respect of his spouse will be applied to the transfer
- The unused nil rate band claimed in respect of his spouse will not be applied to the transfer
- Any inheritance tax paid at the time of the original transfer in excess of the liability on death will give rise to a repayment
- Any inheritance tax paid at the time of the original transfer in excess of the liability on death will not give rise to a repayment

19 If Jeffrey had not made the lifetime gift into trust and his chargeable estate on death was £2,100,000 what would be the inheritance tax payable?

- £840,000
- £710,000
- £685,040
- £684,000

20 For the lifetime gift and the chargeable estate on death, click in the box to indicate the due date for payment of the inheritance tax liability.

Lifetime gift	31 March 2017	30 April 2017
Chargeable estate on death	30 June 2022	31 July 2022

The following scenario relates to questions 21–25.

On 1 July 2019, Barlow Ltd registered for value added tax (VAT). Annual turnover is always in excess of £150,000. The company's VAT returns have been submitted as follows:

<i>Quarter ended</i>	<i>VAT paid/ (refunded)</i> £	<i>Submitted</i>
2019		
30 September	21,390	One month late
31 December	37,030	One month late
2020		
31 March	10,120	On time
30 June	3,910	Two months late
30 September	(7,475)	One month late
31 December	48,415	On time
2021		
31 March	(3,335)	On time
30 June	4,485	On time
30 September	21,620	On time
31 December	65,895	On time
2022		
31 March	41,040	On time

Barlow Ltd always pays any VAT that is due at the same time that the related return is submitted.

During the quarter ended 31 December 2021, Barlow Ltd took key suppliers and clients out for dinner. The VAT exclusive cost of the dinner was:

- UK customers £500
- UK suppliers £300
- Overseas customers £700
- Overseas suppliers £650

On 31 March 2022, Barlow Ltd wrote off two debts which were due from customers. The first debt of £1,650 was in respect of an invoice that was due for payment on 20 August 2021. The second debt of £5,250 was in respect of an invoice that was due for payment on 10 October 2021. Both these figures are VAT inclusive.

During May 2022, Barlow Ltd discovered that a number of errors had been made when completing its VAT return for the quarter ended 31 March 2022. As a result of these errors the company will make an additional payment of VAT to HM Revenue and Customs (HMRC).

21 How long in total will Barlow Ltd’s surcharge liability period last, and what will be the final VAT return submitted within the surcharge liability period?

- 24 months ending with 30 September 2020 VAT return
- 12 months ending with 30 September 2020 VAT return
- 24 months ending with 30 September 2021 VAT return
- 12 months ending with 30 September 2021 VAT return

22 What penalties will arise on the late submission of the 30 June 2020 and 30 September 2020 VAT returns?

30 June 2020	5% x £3,910 = £196	2% x £3,910 = £78	10% x £3,910 = £391
30 September 2020	5% x £7,475 = £374	£0	10% x £7,475 = £748

23 What amount of input VAT was reclaimable in the quarter ended 31 December 2021 in relation to the dinner?

£

24 What amount of VAT would have been reclaimable by Barlow Ltd in the quarter ended 31 March 2022 in respect of the two impaired debts written off?

Select... ▼
£330
£275
£1,380
£1,150

25 Which TWO of the following statements are correct regarding the errors which have been made?

- If the net errors are less than either £10,000 or 1% of turnover (up to £60,000) the corrections may be made in the next VAT return.
- Errors exceeding the de minimis limit must be separately notified to HM Revenue and Customs as soon as practicable.
- The maximum additional penalty that can arise as result of an error is 100% of the VAT lost due to the error.
- As the company has not attempted to conceal the error and has apparently made a voluntary, unprompted disclosure, the penalty will not exceed 20% of the lost tax, and may be waived altogether.

The following scenario relates to questions 26–30.

Mr Potter's capital transactions in the year ended 5 April 2022 included the following:

- (1) On 1 October 2021, he sold his existing hairdressing business under the name of Demon Barbers. He had started the business on 1 August 2014. The sale proceeds were attributable to the market values of the assets of the business as follows:

	£
Goodwill (no cost)	240,000
Freehold shop (cost in August 2014, £220,000)	580,000
Net current assets	110,000

	930,000

- (2) On 21 March 2022, he sold 3,000 £1 ordinary shares in Miracle Products plc, a quoted company, for £98,000. He had acquired the shares in the company as follows:

	<i>Shares</i>	<i>Cost</i>
	£	£
Purchased on 6 April 2008	4,000	13,100
Purchased 24 March 2009	3,200	20,000

Miracle Products plc has an issued share capital of 5 million £1 ordinary shares.

Mr Potter had not made any previous claims for business asset disposal relief in his lifetime and he had an unrelieved capital loss of £4,900 at 6 April 2021. His taxable income in the tax year 2021-22 was £80,000.

- 26 What is Mr Potter's chargeable gain in respect of the disposal of shares in Miracle Products plc?**
- £88,175
 - £84,208
 - £79,250
 - £71,908
- 27 What is the total of Mr Potter's chargeable gains in respect of the sale of his hairdressing business?**
- £587,700
 - £360,000
 - £600,000
 - £710,000
- 28 What would be Mr Potter's capital gains tax liability if his total chargeable gains for the year ended 5 April 2022 amounted to £106,000 and these were all ineligible for business asset disposal relief?**
- £21,200
 - £18,740
 - £8,880
 - £17,760
- 29 Which of the following benefits may have arisen if Mr Potter had delayed the sale of his shareholding in Miracle Products plc until the tax year 2022-23? (You should assume the same proceeds would be received, and that he also sold further shareholdings in that year resulting in a chargeable gain of £16,000.)**
- (1) A lower rate of capital gains tax may apply if his taxable income is lower in 2022-23
 - (2) Tax instalment payments for 2022-23 will be reduced
 - (3) The annual exempt amount will be available against the sale of Demon Barbers
- 1 only
 - 1 and 2 only
 - 2 and 3 only
 - 2 only
- 30 Which TWO of the following statements are correct regarding business asset disposal relief in connection with Mr Potter's disposal of Demon Barbers?**
- Relief must be claimed by 31 January 2024
 - No claim is required as relief is automatic
 - Business asset disposal relief is available as the business has been owned by Mr Potter for two years before disposal
 - Business asset disposal relief is available as the business has been owned by Mr Potter for three years before disposal

Section C

This section of the exam contains three questions.

Each questions is worth 10 or 15 marks and is compulsory.

This exam section is worth 40 marks in total.

31 You should assume that today's date is 1 March 2021

Employee or partner

Jacinda is currently self-employed and has offered Mandla the opportunity to work with her, either as her employee, or to become a partner in her business. Mandla will cease employment on 31 March 2021, to take up this offer from 6 April 2021.

If Mandla chooses to be an employee, he will receive a gross annual salary of £60,000. If he chooses to become a partner in the business, he will receive a 40% share of profits, which are expected to be £150,000 for the tax year 2021-22. Neither partner would receive a salary if Mandla chooses to go into partnership.

Sale of residential property

Jacinda is considering selling a residential property during the tax year 2021-22, which would result in a chargeable gain of £40,000 if she makes the disposal. Jacinda wants to know if it would be beneficial to transfer the property to her husband, Niall, prior to sale, as she will utilise her annual exempt amount on other disposals during the tax year 2021-22.

Niall will not make any other disposals, and his taxable income for the tax year 2021-22 will be £15,000. The transfer of the property to Niall would incur legal expenses of £1,500.

Required:

- (a) Calculate whether it would be more beneficial for Mandla personally to become an employee or a partner for the tax year 2021-22, from an income tax and national insurance perspective. (4 marks)
- (b) Calculate whether it would be more beneficial for Jacinda, to have Mandla as an employee or a partner. (3 marks)
- (c) Calculate the overall saving for the tax year 2021-22 for Jacinda and Niall, if the residential property is transferred to Niall and sold by him, rather than being sold by Jacinda. (3 marks)

(10 marks)

32

Pauline is the marketing director of Slick plc, an advertising agency.

The following information relates to her employment income for the tax year 2021-22:

- (1) Pauline is paid director's remuneration of £8,000 per month by Slick plc.
- (2) During the year, Pauline paid £100 a month to selected charities under an approved payroll giving scheme.
- (3) From 6 April 2021 until 31 December 2021 Pauline used her private motor car for business purposes. During this period she drove 12,000 miles in the performance of her duties for Slick plc, for which the company paid an allowance of 34 pence per mile.
- (4) From 1 January to 5 April 2022, Slick plc provided Pauline with a diesel powered company motor car with a list price of £42,324. The motor car cost the company £40,000, and it has an official CO₂ emission rate of 152 grams per kilometre. The motor car does not meet the RDE2 standard. Slick plc also paid all the running costs of the car, including fuel for private journeys.
- (5) Pauline was unable to drive her motor car for two weeks during February 2022 because of an accident, so Slick plc provided her with a chauffeur at a total cost of £1,800.
- (6) In 2019, Pauline was provided with a laptop computer costing £2,000 primarily for business use. This machine was replaced on 1 January 2022 with new equipment costing £1,800. Pauline purchased the first computer from the company on 31 December 2021 for £50 when its market value was £200.
- (7) Slick plc has provided Pauline with living accommodation since 1 January 2018. The property was purchased in 2010 for £90,000, and was valued at £210,000 on 1 January 2018. It has a gross rateable value of £9,150.
- (8) Pauline was a member of Slick plc's occupational pension scheme into which she paid contributions amounting to 5% of her salary each year. Slick plc also paid contributions on her behalf amounting to 10% of her salary each year.

Required:

Calculate Pauline's income tax liability for the tax year 2021-22.

	A	B	C	
1				1
2				
3				

(15 marks)

¹ A blank spreadsheet would be the most suitable layout for such a question in the exam.

33 Eagle Ltd, a UK resident company that manufactures aeroplane components, prepares annual accounts to 31 March.

The company's results for the year ended 31 March 2022 are summarised as follows:

	£
Trading loss	(411,000)
Income from property	See Note 1
Profit on disposal of shares	See Note 2
Donation to charity (Note 3)	(3,000)

Note 1 – Income from property

Eagle Ltd lets out two warehouses that are surplus to requirements.

The first warehouse was empty from 1 April to 30 June 2021, but was let from 1 July 2021. On that date the company received a premium of £50,000 for the grant of an eight-year lease, and the annual rent of £12,600 which is payable in advance.

The second warehouse was let until 31 December 2021 at an annual rent of £8,400. On that date the tenant left owing three months' rent for October to December 2021 which the company was not able to recover. The roof of the warehouse was repaired at a cost of £7,329 during February 2022.

Note 2 – Profit on disposal of shares

The profit on disposal of shares is in respect of a 1% shareholding purchased on 5 June 2006 for £90,892 and sold on 22 December 2021 for £158,000.

Indexation allowance factor for June 2006 to December 2017 is 0.401.

Note 3 – Donation to charity

The donation to charity was a qualifying charitable donation.

Note 4 – Previous results

The results of Eagle Ltd for the year ended 31 March 2021 were as follows:

	£
Adjusted trading profit	75,300
Property business profit/(loss)	(4,600)
Chargeable gain/(loss)	9,300
Qualifying charitable donation	(2,600)

Eagle Ltd only expects to break even on trading activity in the year ended 31 March 2023.

Note 5 – Osprey Ltd

Eagle Ltd has one subsidiary, Osprey Ltd. Eagle Ltd acquired 80% of the share capital of Osprey Ltd on 1 October 2021. Osprey Ltd also prepares accounts to 31 March. The results of Osprey Ltd for the year ended 31 March 2022 show:

	£
Tax adjusted trading profit	216,000
Bank interest receivable	5,000
Donation to charity	(1,000)

Required:

- (a) **Assuming that Eagle Ltd claims relief for its losses as early as possible, calculate the company's taxable total profits for the two years ended 31 March 2021 and 2022.**

	A	B	C
1			
2			
3			

Notes:

- (1) Your answer should show the amount of unrelieved trading losses as at 31 March 2022.
- (2) You should ignore any possibility of loss relief involving Osprey Ltd in this part of your answer. (11 marks)

- (b) **Taking into account Eagle Ltd's interest in Osprey Ltd:**

- (i) **Calculate the maximum amount of group relief available between Eagle Ltd and Osprey Ltd for the year ended 31 March 2022.**

Note: for this part, you should ignore any use of the losses from part (a).

(3 marks)

- (ii) **Explain why including group relief in the strategy for relieving Eagle Ltd's trading loss may be a tax efficient option.**

Note: No calculations are required for this part of your answer.(1 mark)

(15 marks)

End of Question Paper