

# Mock Two

## Taxation (United Kingdom) TX-UK

Mock Exam 2 Questions  
(FA2021)

**Time allowed:** 3 hours 15 minutes

This examination 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

# Taxation (UK)

## SUPPLEMENTARY INSTRUCTIONS

Calculations and workings need only be made to the nearest £.  
All apportionments should be made to the nearest month.  
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.

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<b>Income tax</b>		<i>Normal rates</i>	<i>Dividend rates</i>
Basic rate	£1 – £37,700	20%	7.5%
Higher rate	£37,701 – £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			£2,000

A starting rate of 0% applies to savings income where it falls within the first £5,000 of taxable income.

### Personal allowance

Personal allowance	£12,570
Transferable amount	£1,260
Income limit	£100,000

Where adjusted net income is £125,140 or more, the personal allowance is reduced to zero.

### Residence status

<b>Days in UK</b>	<b>Previously resident</b>	<b>Not previously resident</b>
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 55 grams per kilometre.

The percentage rates applying to petrol-powered motor cars (and diesel-powered motor cars meeting the RDE2 standard) with CO<sub>2</sub> 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 CO<sub>2</sub> emissions is 1%.

For hybrid-electric motor cars with CO<sub>2</sub> 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 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 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		6%
<b>Motor cars</b>		
New cars with zero CO <sub>2</sub> emissions		100%
CO <sub>2</sub> emissions between 1 and 50 grams per kilometre		18%
CO <sub>2</sub> emissions over 50 grams per kilometre		6%
<b>Annual investment allowance</b>		
Rate of allowance		100%
Expenditure limit		£1,000,000
<b>Enhanced allowances for companies</b>		
Main pool super deduction		130%
Special rate pool first year allowance		50%
<b>Commercial structures and buildings</b>		
Straight-line allowance		3%

### Cash basis of 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
Excess - Death rate		40%
- Lifetime rate		20%

### Inheritance tax: taper relief

<i>Years before death</i>		<i>Percentage reduction</i>
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

	<i>Normal rates</i>	<i>Residential property</i>
Rates of tax - 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 to £9,568 per year	Nil
	£9,569 to £50,270 per year	12%
	£50,271 and above per year	2%
Class 1 Employer	£1 to £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	
	Small profits threshold	£6,475
Class 4	£1 to £9,568 per year	Nil
	£9,569 to £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**

<b>Taxpayer behaviour</b>	<b>Maximum penalty</b>	<b>Minimum penalty – unprompted disclosure</b>	<b>Minimum penalty – prompted disclosure</b>
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 (OT) questions**. Each question is worth **2 marks** and is compulsory.

- 1** During the tax year 2021-22, Phil was paid a gross annual salary of £64,500. He also received taxable benefits valued at £4,500.

**What amount of Class 1 national insurance contributions will have been suffered by Phil for the tax year 2021-22?**

- £4,884
- £5,169
- £5,259
- £6,317

- 2** Moose Ltd registered for value added tax (VAT) with effect on 1 January 2022. The company incurred the following expenditure prior to registration:

28 February 2021	Machine	£1,000
31 March 2021	Stationery (unused at 1 January 2022)	£150
1 June 2021	Advertising services	£800
1 September 2021	Advertising services	£500

These amounts are exclusive of VAT.

**What amount of pre-registration input VAT will Moose Ltd be able to recover in respect of the expenditure incurred prior to registering for VAT?**

£

- 3** Shark Ltd is a wholly-owned subsidiary of Porpoise Ltd. Porpoise Ltd made a trading loss of £120,000 for the year ended 31 March 2022.

In the same year Shark Ltd made a trading profit of £100,000, had chargeable gains of £7,000 and paid qualifying charitable donations of £4,000.

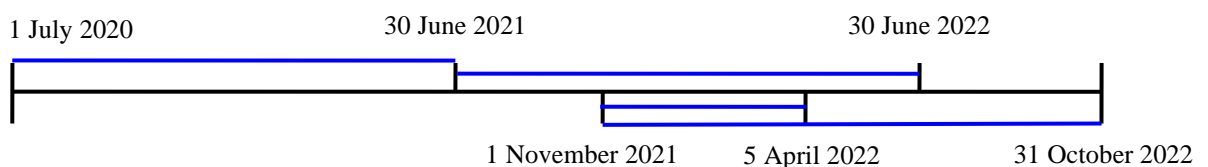
Neither company has any other taxable profits or allowable losses.

**What is the maximum amount of group relief which Shark Ltd can claim from Porpoise Ltd in respect of the trading loss of £120,000 for the year ended 31 March 2022?**

- £100,000
- £103,000
- £107,000
- £120,000

- 4** Angus and Bron have traded in partnership for several years, preparing accounts to 30 June each year. Colette was admitted to the partnership on 1 November 2021.

**Indicate, by clicking on the correct line in the timeline below, the basis period for Colette's share of the partnership profits for the tax year 2021-22.**



- 5** Edward sold a residential property on 31 March 2022 for proceeds of £250,000. The property had cost Edward £80,000 when he purchased it in June 2005. The property was not his private residence, and this was the only disposal that Edward made during the tax year 2021-22.

Edward's taxable income for the tax year 2021-22 was £35,000.

**What is Edward's capital gains tax liability for the tax year 2021-22?**

- £31,270
  - £44,156
  - £31,540
  - £43,886
- 6** During the tax year 2021-22, Arkady received bank interest of £18,795. This is his only income for the year.

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

- £1,245
  - £1,045
  - £245
  - £45
- 7** From 6 April 2021 Samuel was provided with living accommodation valued at £143,000. His employer had purchased the property in 2013 for £89,000 and had carried out improvements in 2014 that cost £10,000. The annual value of the property is £4,600.

**What is Samuel's taxable benefit in respect of the living accommodation provided for the tax year 2021-22?**

- £1,360
  - £4,600
  - £5,960
  - £5,080
- 8** Shaun Ltd started trading on 1 January 2021 and prepared its first set of accounts to 31 March 2022.

**Complete the following sentence by selecting the correct number of months of and dates from the options below.**

Shaun Ltd's accounting periods for the period of account to 31 March 2022 will be  to  and  to .

Months	Date
3 months	31 March 2021
12 months	31 December 2021
15 months	31 March 2022

- 9 Soft Ltd filed their corporation tax return for the year ended 31 December 2020 on 31 May 2022. This was the third consecutive time that Soft Ltd were late filing their corporation tax return.

**What late filing penalty will be levied on Soft Ltd for the late filing of the corporation tax return for the year ended 31 December 2020?**

- £100
- £1,000
- £200
- £500

- 10 On 18 September 2021 Gregory sold 25,000 £1 ordinary shares in Daub Ltd, an unquoted trading company, for £240,000. The shares had been given to Gregory by his father, Derek, on 10 June 2021 when the market value was £200,000. Derek had subscribed for the shares at par on 1 July 2011. Derek and Gregory elected to holdover the gain as a gift of a business asset. Gregory made no other capital disposals in the tax year 2021-22.

**What is Gregory's taxable gain in respect of the sale of the shares?**

- £0
- £27,700
- £202,700
- £215,000

- 11 Quantum Ltd is in a group with two other related 51% group companies. For the year ended 31 December 2021, Quantum Ltd had taxable total profits of £510,000, and for the six months ended 30 June 2022 had taxable total profits of £270,000. The profits arose evenly within this period.

**Indicate, by clicking on the relevant boxes in the table below, the number of instalments and amount of payments which Quantum Ltd must make to settle its corporation tax liability for the period ended 30 June 2022.**

Number of instalments	One	Two	Three	Four
Amount of payments	£51,300	£25,650	£17,100	£12,825

- 12 **Assuming Roman always utilises his annual exemption against other gifts, which TWO of the following cash gifts made to his grandson, Stephen, during the tax year 2021-22, will be exempt from inheritance tax?**

- £500 each month out of his income (2020-21: £450 a month)
- £1,500 on Stephen's 21<sup>st</sup> birthday
- £2,000 on Stephen's graduation from university
- £2,500 on Stephen's marriage to Bridget



**13** On 29 October 2021, Jennifer made a cash gift to a trust of £650,000 (after deducting all available exemptions).

Her only previous chargeable transfer was made in January 2016 and had a gross value (after exemptions) of £125,000.

**What amount of inheritance tax is payable in respect of Jennifer’s gift to the trust on 29 October 2021?**

- £81,250
- £90,000
- £112,500
- £162,500

**14** Kew Ltd has the following trading results for the three years to 31 December 2022:

			£
2020	Loss	(37,600)	
2021	Profit	19,500	
2022	Profit	23,100	

The trading loss of £37,600 is carried forward, and Kew Ltd has a policy of claiming losses as soon as possible.

The company also has bank interest receivable of £3,200 in 2021 and £4,300 in 2022.

**What is the amount of Kew Ltd’s taxable total profits for the year to 31 December 2022?**

- £4,300
- £8,200
- £9,300
- £12,500

**15** Ernest commenced trading on 1 January 2022. His turnover (all taxable supplies) for the three months to 31 March 2022 was £47,200. Turnover (all taxable supplies) for the next four months was as follows:

	£
April	18,000
May	23,500
June	29,800
July	31,000

**Identify, by clicking on the correct date on the timeline below, the date by which Ernest must register for VAT.**



## Section B

This section of the exam contains **three OT cases**.  
Each OT case contains a scenario which relates to **five OT questions**.  
Each question is worth **2 marks** and is compulsory

**The following scenario relates to questions 16–20.**

Progress Ltd sold the following assets during the year ended 31 March 2022:

- (1) On 14 June 2021 part of its 2% shareholding in Essy plc was sold for £24,400. Progress Ltd had originally purchased 15,000 £1 ordinary shares in Essy plc on 26 June 2000 for £12,600. On 28 September 2012 Essy plc made a 1 for 3 rights issue. Progress Ltd took up its allocation under the rights issue in full, paying £2.20 for each new share issued. The indexation factor for the period June 2000 to September 2012 was 0.437.
- (2) On 28 January 2022 a freehold factory was sold for £171,000. The indexed cost of the factory on that date was £127,000. Progress Ltd has made a claim to holdover the gain on the factory against the cost of a replacement freehold factory under the rollover relief rules. The new factory was purchased on 10 December 2021 for £154,800. The two factory buildings have always been used entirely for business purposes.
- (3) On 20 February 2022 a hectare of land was sold for £130,000. Progress Ltd had originally purchased four hectares of land, and the indexed cost of the four hectares on 20 February 2022 was £300,000. The market value of the unsold three hectares of land as at 20 February 2022 was £350,000. Progress Ltd incurred legal fees of £3,200 in connection with the disposal. The land has never been used for business purposes.

**16** What is the indexed cost of the Essy plc share pool in September 2012 after taking up the rights issue?

£

**17** If the shares in Essy plc sold by Progress Ltd had a cost of £18,880 and an indexed cost of £25,336 what is the chargeable gain or loss arising?

Select... ▼
£800 gain
£936 loss
£0
£5,520 gain

**18** What is the chargeable gain or loss in respect of the sale of the freehold factory?

- £16,200
- £0
- £27,800
- £44,000

**19** Which TWO of the following statements are correct?

- A rollover relief claim can only be made if reinvestment is between 12 months before and three years after the date of the disposal of the old asset
- A rollover relief claim can only be made if reinvestment is between three years before and 12 months after the date of the disposal of the old asset
- Rollover relief effectively reduces the gain arising on the disposal of the replacement asset, as the base cost is reduced by the amount of the deferred gain.
- A disposal in the tax year 2020-21 which is reinvested in a new assets in the tax year 2021-22 requires a claim by 5 April 2026.

**20** What is the chargeable gain or loss in respect of the sale of land?

- £51,800
- £48,750
- £45,550
- £15,371

**The following scenario relates to questions 21–25.**

Ren has been a sole trader for many years, providing standard-rated services in the catering business. The following information is available for the tax year 2021-22:

- (1) Sales for the year were £120,000, exclusive of output value added tax (VAT).
- (2) Expenses amounted to £50,000, exclusive of recoverable input VAT of £320.

Ren has been registered for VAT since he commenced trading. However, he has recently started invoicing for his services on new payment terms, and is concerned about output VAT being accounted for at the appropriate time.

Ren is not currently enrolled in the VAT flat rate scheme, but the scheme percentage applicable to his business is 11%.

On 1 April 2022, Ren purchased a delivery van for £15,000 and paid £3,600 to lease a car. These figures are inclusive of VAT. The delivery van is used 10% of the time for private purposes by an employee and the leased car is used 20% of the time by Ren for private purposes.

**21 Identify, by clicking on the relevant box in the table below, which of the following statements is NOT correct regarding the tax point in respect of the supply of services.**

The basic tax point is the date when services are completed
The actual tax point will be earlier if the invoice date is earlier
The actual tax point will be the invoice date if it is within 14 days after the services are provided
The date of payment is not relevant to the tax point

**22 Which TWO of the following statements are correct?**

- Trade discount will reduce the tax value of a supply, but early settlement discount will not
- Both trade discount and early settlement discount will reduce the tax value of a supply
- Discounts taken up will require either a revised VAT invoice or a credit note to be issued
- Discounts taken up need not always require either a revised VAT invoice or a credit note to be issued

**23 Complete the following sentences by matching the correct descriptions of turnover and time period into the relevant target area.**

Ren can join the flat rate scheme if his expected  turnover for the next 12 months does not exceed £150,000.

Ren would need to leave the flat rate scheme if, on the anniversary of joining, his  turnover exceeded £230,000 in the last .

Turnover	Turnover	Time period
VAT exclusive	VAT exclusive	30 days
VAT inclusive	VAT inclusive	12 months

**24 What would be the tax saving if Ren had used the flat rate scheme throughout the year ended 5 April 2022?**

- £10,480
- £10,800
- £8,160
- £7,840

**25 Assuming Ren does not join the flat rate accounting scheme, how much input tax can he reclaim in respect of the delivery van and the leased car?**

- £2,800
- £2,500
- £300
- £2,550

**The following scenario relates to questions 26–30.**

**You should assume that today's date is 31 March 2022.**

Charles and Wilma were a married couple. Wilma died on 15 February 2013, and Charles died on 1 February 2022.

### **Wilma's estate**

Wilma left an estate valued at £300,000 for inheritance tax purposes. Under the terms of her will, Wilma left a specific legacy of £50,000 to her sister, and the remainder of her estate to her husband, Charles. Wilma had made only one lifetime gift of £100,000 to her daughter on 30 June 2010. The gift is after taking account of all available exemptions.

The nil rate band for the tax year 2012-13 is £325,000.

### **Charles's estate**

Charles has a chargeable estate of £700,000, which includes a private residence valued at £400,000, which has a repayment mortgage of £130,000 remaining on it. Under the terms of his will, Charles left his full estate to his daughter.

On 31 January 2014, Charles made a gift (a potentially exempt transfer) of 25,000 £1 ordinary shares in Black Ltd, an unquoted investment company, to his daughter. Before the transfer, Charles held 40,000 Black Ltd ordinary shares.

Black Ltd has an issued share capital of 50,000 £1 ordinary shares. On 31 January 2014, Black Ltd's shares were worth £3 each for a holding of 30%, £5 each for a holding of 50%, and £8 each for a holding of 80%.

On 14 February 2021, Charles had made a gift of £25,000 to his granddaughter when she got married.

Charles did not make any other lifetime gifts.

**26 How much of Wilma's nil rate band will the personal representatives of Charles be able to claim when calculating the IHT payable on his chargeable estate?**

£

**27 What is the total amount of residence nil rate band which will be available in calculating the IHT payable on Charles's chargeable estate?**

- £175,000
- £350,000
- £270,000
- £400,000

**28 At the time of the gift, what was the amount of potentially exempt transfer which Charles made to his daughter (the gift of 25,000 shares in Black Ltd) after deducting any available exemptions?**

Select..	▼
£269,000	
£275,000	
£125,000	
£119,000	

**29 What is the value of the cash gift to Charles's granddaughter, after all available exemptions?**

- £14,000
- £22,500
- £19,500
- £16,500

**30 Which of the following statements are NOT true in relation to the residence nil rate band?**

- The residence nil rate band is not available if the residence is given to the child during lifetime.
- The residence does not have to be the deceased's residence at the time of death.
- The deceased must have lived in the property for a minimum of 9 months for it to qualify.
- The residence nil rate band is not available when calculating the additional tax due on lifetime gifts as a result of death.

## Section C

This section of the exam contains **three constructed response** questions, each containing a scenario which relates to one or more requirement(s).

Each constructed response question is worth **10 or 15 marks**

All questions are compulsory.

### 31 You should assume that today's date is 1 March 2022.

Alistor has been self-employed since 2010, preparing accounts to 5 April each year. Alistor's tax liabilities for the tax year 2020-21 were:

	£
Income tax liability	11,500
Class 4 national insurance contributions	3,845
Class 2 national insurance contributions	159
Capital gains tax liability	5,000

For the tax year 2021-22, Alistor is expecting to have tax adjusted trading profits of £65,000 and an expected chargeable gain of £32,300. This would result in the following tax liabilities:

	£
Income tax liability	To be calculated
Class 4 national insurance contributions	3,958
Class 2 national insurance contributions	159
Capital gains tax liability	2,000

However, Alistor is considering some tax planning options that might reduce his tax liabilities for the tax year 2021-22.

#### Tax planning options

Alistor is considering making a net personal pension contribution of £30,000 before the end of the tax year 2021-22.

The chargeable gain of £32,300 is expected to arise from the sale of shares which will qualify for business asset disposal relief for Alistor. He is considering transferring half of the shares to his wife prior to disposal, so that she could dispose of them and make use of her annual exempt amount which is available in full. However, the disposal will not qualify for business asset disposal relief for his wife. Alistor's wife will have taxable income of £15,000 for the tax year 2021-22.

#### Required:

- (a) **Assuming that Alistor does not opt for any of the tax planning options, calculate his income tax liability for the tax year 2021-22, and the total payment that Alistor will be due to make by 31 January 2023, for the tax years 2021-22 and 2022-23.** (5 marks)
- (b) **Explain how tax relief will be given in the tax year 2021-22 if Alistor makes the pension contribution. Calculate how much the pension contribution would reduce the income tax payable by Alistor on 31 January 2023 in relation to the tax year 2021-22.** (3 marks)
- (c) **Advise Alistor of the overall capital gains tax saving for him and his wife for the tax year 2021-22, if he transfers half of the shares to his wife prior to disposal.** (2 marks)

**(10 marks)**



**32** Ariel and Nicholas have been in partnership for 10 years. The following information is available for the tax year 2021-22:

**Profit and loss account for the year ended 5 April 2022**

The partnership's statement of profit and loss for the year ended 5 April 2022 is as follows:

	Note	£	£
Sales			141,528
Expenses			
Depreciation		2,728	
Motor expenses	1	4,100	
Other expenses	2	1,800	
Wages and salaries	3	50,900	
		-----	(59,528)
Net profit			----- 82,000 -----

- (1) The figure of £4,100 for motor expenses includes £2,600 in respect of Nicholas's motor car, with 30% of this amount being in respect of private journeys.
- (2) The figure of £1,800 for other expenses includes £720 for entertaining employees. The remaining expenses are all allowable.
- (3) The figure of £50,900 for wages and salaries includes the annual salary of £4,000 paid to Nicholas (see the profit sharing note below), and the annual salary of £15,000 paid to Ariel's husband, who works part-time for the partnership. Another part-time employee doing the same job is paid a salary of £10,000 per annum.

**Plant and machinery**

On 6 April 2021 the tax written down values of the partnership's plant and machinery were as follows:

	£
Main pool	3,100
Motor car [1]	14,000

The following transactions took place during the year ended 5 April 2022:

		<i>Cost/(proceeds)</i>
		£
8 May 2021	Sold motor car [1]	(13,100)
8 May 2021	Purchased motor car [2]	11,600
21 November 2021	Purchased motor car [3]	14,200
14 January 2022	Purchased motor car [4]	8,700

Motor car [1] has a CO<sub>2</sub> emission rate of 105 grams per kilometre. It was used by Nicholas, and 70% of the mileage was for business journeys. Motor car [2] purchased on 8 May 2021 is an electric car with zero CO<sub>2</sub> emissions. It is used by Nicholas, and 70% of the mileage is for business journeys.

Motor car [3] purchased on 21 November 2021 has a CO<sub>2</sub> emission rate of 45 grams per kilometre. Motor car [4] purchased on 14 January 2022 has a CO<sub>2</sub> emission rate of 80 grams per kilometre. These two motor cars are used by employees of the business.

**Profit sharing**

Profits are shared 80% to Ariel and 20% to Nicholas. This is after paying an annual salary of £4,000 to Nicholas, and interest at the rate of 5% on the partners' capital account balances. The capital account balances are:

	£
Ariel	56,000

Nicholas

34,000

**Required:**

- (a) Calculate the partnership's tax adjusted trading profit for the year ended 5 April 2022, and the trading income assessments of Ariel and Nicholas for the tax year 2021-22.

**Note:** Your computation should commence with the net profit figure of £82,000, and should also list all of the items referred to in notes (1) to (3) indicating by the use of zero (0) any items that do not require adjustment.

	A	B	C	1
1				
2				
3				

 (12 marks)

- (b) Calculate Ariel's income tax and class 4 national insurance liability for the tax year 2021-22.

	A	B	C
1			
2			
3			

 (3 marks)

**(15 marks)**

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

**33** Mice Ltd is a manufacturer of computer peripherals. The company prepares accounts to 31 March and its results for the year ended 31 March 2021 were as follows:

	£
Trading profit	51,200
Property business income	12,200
Qualifying charitable donations	2,600

The following information is available in respect of the year ended 31 March 2022:

#### **Trading loss**

Mice Ltd made a trading loss of £180,000.

#### **Property business income**

Mice Ltd lets out three office buildings that are surplus to requirements.

The first office building is held leasehold and is let out furnished. Mice Ltd pays an annual rent of £7,800 for this property, but did not pay a premium when the lease was acquired. The property was let throughout the year ended 31 March 2022 at a quarterly rent of £3,200, payable in advance. Mice Ltd paid business rates of £2,200 and insurance of £460 in respect of this property for the year ended 31 March 2022. During June 2021 Mice Ltd repaired the existing car park for this property at a cost of £1,060, and then subsequently enlarged the car park at a cost of £2,640.

The second office building is owned freehold. On 1 April 2021 the property was let to a tenant, with Mice Ltd receiving a premium of £18,000 for the grant of an eight-year lease. The company also received the annual rent of £6,000 which was payable in advance. Mice Ltd paid insurance of £310 in respect of this property for the year ended 31 March 2022.

The third office building is also owned freehold. Mice Ltd purchased the freehold of this building on 1 January 2022, and it will be empty until 31 March 2022. The building is to be let from 1 April 2022 at a monthly rent of £640, and on 15 March 2022 Mice Ltd received three months' rent in advance. On 1 January 2022 Mice Ltd paid insurance of £480 in respect of this property for the year ended 31 December 2022, and during February 2022 spent £680 on advertising for tenants. Mice Ltd paid loan interest of £1,800 in respect of the period 1 January 2022 to 31 March 2022 on a loan that was taken out to purchase this property.

#### **Loan interest received**

On 1 July 2021 Mice Ltd made a loan for non-trading purposes. Loan interest of £6,400 was received on 31 December 2021, and £3,200 was accrued at 31 March 2021.

#### **Dividend income**

On 15 October 2021 Mice Ltd received a dividend of £7,400 from a 3% shareholding in USB Ltd.

#### **Chargeable gain**

On 20 December 2021 Mice Ltd sold its 3% shareholding in USB Ltd. The disposal resulted in a chargeable gain of £10,550, after taking account of indexation.

**Required:**

- (a) Calculate Mice Ltd's property business income for the year ended 31 March 2022. (8 marks)

	A	B	C
1			
2			
3			

- (b) Assuming that Mice Ltd claims relief for its trading loss as early as possible, calculate the company's taxable total profits for the years ended 31 March 2021 and 2022. Show the amount of losses unrelieved at 31 March 2022, if any. (5 marks)

	A	B	C
1			
2			
3			

- (c) Mice Ltd has owned 100% of the ordinary share capital of Web-Cam Ltd since it began trading on 1 April 2021. For the three-month period ended 30 June 2021 Web-Cam Ltd made a trading profit of £28,000, and is expected to make a trading profit of £224,000 for the year ended 30 June 2022. Web-Cam Ltd has no other taxable profits or allowable losses.

**Required:**

Assuming that Mice Ltd does not make any loss relief claim against its own profits, advise Web-Cam Ltd as to the maximum amount of group relief that can be claimed from Mice Ltd in respect of the trading loss of £180,000 for the year ended 31 March 2022. (2 marks)

**(15 marks)**

**End of Questions**