Advanced Taxation (UK)
March 2020

Get to know your exam

These graphical representations are intended to give an indication of past exam requirements and associated question content.

Please note that you will not be able to complete answers within these documents and in isolation they will not sufficiently prepare you for your exam.

We encourage you to visit the ACCA Practice Platform in order to attempt up to date practice exams within the computer-based exam environment.
Instruction screens

Advanced Taxation - United Kingdom (ATX - UK)

Welcome [REDACTED] to the [REDACTED] exam.

You will now be presented with four instruction screens followed by an exam summary screen. The five screens will be available for 10 minutes in total.

Instructions (1 of 4)

The Workspace

- Your exam consists of a number of questions. Each question is presented in a workspace. Each workspace will include:
  - Introductory information about the question.
  - Exhibits – these contain the question scenario content broken down into sections or sources of information you will need to answer the question requirement(s).
  - Requirements – these list the requirement(s) you are expected to answer in the workspace.
  - Response Options – you may be presented with one or more word processor and/or spreadsheet response options within which to construct your answer.
- When selected, the exhibits, requirements and response options will display in windows, which can be moved and resized as required.
- You can close each window individually or close all windows at once by selecting [REDACTED] Close All on the top toolbar. Note that any answers you have entered into the response options will be saved and you can re-open them and change your answers at any time.
- There is a splitter bar which can be used for you to see more or less of the left or right hand side of the screen, as required.
- When using PDF exhibits in the exam, and you want to select text to highlight, strikethrough or copy, you need to select the 'text tool' button [REDACTED] at the top of the exhibit.
- You can highlight or strikethrough text in the introductory information, PDF exhibits or requirements by selecting [REDACTED] Highlight or [REDACTED] Strikethrough.
- You can copy and paste between exhibits, requirements and response options by using the Ctrl-C (Copy) and Ctrl-V (Paste) shortcuts. Note: When pasting into a spreadsheet response from elsewhere in workspace you must double-click the cell or select the formula bar.

Note: In a number of countries ACCA works in partnership with the national professional accountancy organisation in the delivery of examinations.
Instruction screens (continued)

Instructions (2 of 4)

Navigation
- The question number you are viewing is displayed in the top display bar. You can hide or restore this display by selecting .
- You can navigate between screens by selecting Next or Previous, or by clicking on a question number from the Navigator or Item Review screens.
- You can revisit questions and change your answers at any time during the exam.

Time Remaining
- The time remaining for your exam continually updates and is displayed in the top display bar. You can hide or restore this display by clicking .
- You will be presented with a message confirming when you have 15 minutes remaining.

Flag for Review
- If you wish to revisit/review a question later in the exam, click Flag for Review.
- Click the button again to remove the flag.

Help
- Click the Help button provided to access:
  - A copy of these exam instructions.
  - Help and guidance on workspaces.
  - Formulae sheets/tax tables if your exam requires these. Note that the name of the Help button will indicate if formulae sheets/tax tables are available i.e. Help.

Calculator
- You have the option to use the on-screen standard or scientific calculators by selecting Calculator.
- Note that you are also permitted to use your own calculator providing it does not have the facility to store or display text.
Instruction screens (continued)

Advanced Taxation - United Kingdom (ATX - UK)

Instructions (3 of 4)

Workings/Scratch Pad
- You may use an on-screen Scratch Pad to make notes/workings by selecting Scratch Pad.
- You can cut and copy text from the Scratch Pad and paste into your response options using the Ctrl-C (Copy), Ctrl-X (Cut) and Ctrl-V (Paste) shortcuts, or the on-screen buttons. Note: When pasting into a spreadsheet response you must double-click the cell or select the formula bar.
- The Scratch Pad retains all notes/workings entered for all workspaces. These are available for the duration of the exam but will not be submitted for marking.
- You will also be provided with paper for notes/workings should you prefer to use it. This will be collected at the end of the exam and must not be removed from the exam room.
- Important:
  - The notes/workings entered onto the Scratch Pad or your workings paper will not be marked.
  - If you want the marker to see any notes/workings for question requirements you must show them within the relevant response options.

Symbol
- You can add a selection of currency symbols to your answers by selecting Symbol on the top toolbar.

Navigator Screen
- Navigator can be accessed at any time during the exam by selecting Navigator.
- This screen allows you to jump to any question number in the exam.
- It also allows you to see the status of each question and whether it has been viewed, attempted or flagged for review.
Instruction screens (continued)

Exiting the Exam
- The exam will automatically end when the allocated time has been reached.
- If, however, you wish to end the exam before this time you must:
  - Navigate to the last question in the exam.
  - Click Next.
- This takes you to the Item Review screen:

**Item Review Screen**
- This screen gives you an opportunity to see the flag and completion status of all questions before you finally exit the exam.
- You can select individual questions you wish to revisit, or quickly access groups of questions from this screen.
- During the item review period Navigator is not available however you can navigate to questions by selecting Next or Previous or Review Screen.
- Once you have completed your item review and wish to finally end the exam click End Exam.

Select Next to move to the Exam Summary screen.
Exam summary screen

Exam Summary

Time allowed: 3 hours 15 minutes.
This exam is divided into two sections:

Section A
- Two questions; one worth 35 marks and one worth 25 marks.
- 60 marks in total.

Section B
- Two questions, each worth 20 marks.
- 40 marks in total.

All questions are compulsory.

Select Next to start your exam.
Section A Introduction

This section of the exam contains two questions.
One question is worth 35 marks and one question is worth 25 marks.
Each question is compulsory.
This exam section is worth 60 marks in total.

Important:
- You should assume that the tax rates and allowances for the tax year 2018/19 and for the financial year to 31 March 2019 will continue to apply for the foreseeable future unless you are instructed otherwise.
- Calculations and workings need only be made to the nearest £.
- All apportionments should be made to the nearest month.
- You must:
  - Indicate which requirement each of your responses relate to so that this is clear for markers.
  - Show all notes/workings that you want the marker to see within your responses. Remember, any notes/workings made on the Scratch Pad or on your workings paper will not be marked.

Select Next to continue.
Question 1

Your manager has had a meeting with Corey, a client of your firm. Extracts from the memorandum prepared by your manager following the meeting, and an email from him detailing the work he requires you to do are set out in the exhibits.

The following exhibits, available on the left-hand side of the screen, provide information relevant to the question:

1. Extracts from the memorandum prepared by your manager – dated 2 March 2020.
2. Extracts from the email from your manager – dated 3 March 2020.

This information should be used to answer the question requirements within your chosen response option(s).
Requirements

Prepare the memorandum as requested in the email from your manager. The following marks are available:
(a) Corey’s UK residence status for the tax year 2019/20. (9 marks)
(b) Corey’s disposals of assets in the tax years 2018/19 and 2019/20. (11 marks)
(c) Lifetime gifts of paintings by Emer. (6 marks)
(d) Refund of income tax. (5 marks)

Professional marks will be awarded for the approach taken to problem solving, the clarity of the explanations and calculations, the effectiveness with which the information is communicated, and the overall presentation and style of the memorandum. (4 marks)
Extracts from the memorandum prepared by your manager – dated 2 March 2020

Background
Corey had always lived in the UK until, on 6 April 2016, he sold his home in the UK and moved to the country of Medora with his wife, Dana, and their daughter. They always planned to return to the UK at some point, such that they continued to be domiciled in the UK. Corey began working for a company in Medora on 1 May 2016.

In March 2019, Corey’s sister, Florence, became seriously ill. Consequently, Corey and his family returned to live in the UK on 6 April 2019.

Period from 6 April 2016 to 5 April 2019
Corey was not resident in the UK during this period. However, he visited the UK (staying in hotels) as follows:

<table>
<thead>
<tr>
<th>Tax year</th>
<th>Days in the UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016/17</td>
<td>49</td>
</tr>
<tr>
<td>2017/18</td>
<td>105</td>
</tr>
<tr>
<td>2018/19</td>
<td>74</td>
</tr>
</tbody>
</table>

Since 6 April 2019
On 1 June 2019, Corey and Dana purchased a new home in the UK. On the same date, Dana started a new full-time job in the UK and became UK resident. Corey and Dana have retained their home in Medora because Corey has continued working there and does not work in the UK. It is envisaged that Corey will have been in the UK for 115 days in the tax year 2019/20.

Disposals of assets in the tax year 2018/19
- On 1 December 2018, Corey sold a statue situated in the garden of his home in Medora. He had purchased the statue for £17,000 on 1 September 2016. The sale resulted in a capital loss of £7,400.
- On 1 February 2019, as a result of a commercial takeover, Corey received 4,000 shares in TW plc (a holding of less than 1%) and £12,000 in cash in exchange for 2,000 shares in SQ plc. One share in TW plc was worth £3.50 on that day. Corey had purchased his 2,000 shares in SQ plc (a holding of less than 1%) for £13,500 on 1 June 2013. SQ plc and TW plc are quoted companies.

Disposals of assets in the tax year 2019/20
- On 1 August 2019, Corey sold a house situated in Medora. This house was purchased on 1 July 2015 and has always been rented out. The sale realised a gain of £33,900.
- On 1 December 2019, Corey gave his sister, Florence, 700 of the 4,000 shares he owned in TW plc. One share in TW plc was worth £4.50 on that day.

Paintings owned by Corey’s mother
Corey has asked for advice on the inheritance tax (IHT) advantages of his mother, Emer, who is UK domiciled, making lifetime gifts to Corey of either or both of the following paintings.

<table>
<thead>
<tr>
<th>Current market value</th>
<th>Anticipated change in value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Watercolour</td>
<td>41,000</td>
</tr>
<tr>
<td>Portrait</td>
<td>37,000</td>
</tr>
<tr>
<td></td>
<td>Falling in value</td>
</tr>
<tr>
<td></td>
<td>Increasing in value</td>
</tr>
</tbody>
</table>
Income tax refund

A few months ago, Corey received a refund of income tax from HM Revenue and Customs (HMRC) in respect of the tax year 2015/16. He has not been able to determine why the refund was made.
Exhibit 2

Extracts from the email from your manager – dated 3 March 2020

Taxation in the country of Medora
- There is no capital gains tax (CGT).
- There is no double tax treaty between the UK and Medora.

Please prepare a memorandum for the client file consisting of the work set out below:

(a) Corey’s UK residence status for the tax year 2019/20
   - Explain how Corey’s UK residence status for the tax year 2019/20 will be determined and conclude on his likely residence status for that year. Corey will have lived in both of his houses (i.e., in the UK and Medora) during the year, such that he will not have ‘his only home’ in the UK for the purposes of the automatic UK residency tests.
   - State how becoming UK resident would affect Corey’s liability to UK income tax.

(b) Corey’s disposals of assets in the tax years 2018/19 and 2019/20
   For this part of the work, you should assume Corey is UK resident for the tax year 2019/20 and will receive taxable income in that year of £38,400, before deduction of his personal allowance.
   - Explain how each of Corey’s disposals in the tax year 2018/19 will be treated for the purposes of CGT.
   - Calculate Corey’s CGT liability for the tax year 2019/20.

(c) Lifetime gifts of paintings by Emer
   - Explain, with respect to the amount of inheritance tax (IHT) payable ONLY, whether or not it would be beneficial for Emer to make a lifetime gift of either or both of her paintings (as opposed to retaining them until her death). There is no need to address the annual exemption, as Emer makes use of this every year.
   - You should assume there will be no nil rate band available regardless of when the transfer takes place.

(d) Refund of income tax
   In respect of the income tax refund, set out the actions which our firm should take and the matters which should be brought to Corey’s attention.

Tax manager
Question 2

Your manager has received a letter from Mita, the owner and managing director of Porth Ltd, a client of your firm. Extracts from that letter, together with extracts from an email from your manager detailing the work you are required to do, are set out in the exhibits.

The following exhibits, available on the left-hand side of the screen, provide information relevant to the question:

2. Extracts from the email from your manager – dated 3 March 2020.

This information should be used to answer the question requirements within your chosen response option(s).
Requirements

Carry out the work required as requested in the email from your manager. The following marks are available:

(a) Sale of 4,000 shares in Porth Ltd on 1 May 2020. (4 marks)

(b) Quod Ltd. (15 marks)

(c) Ryb Ltd. (6 marks)
Exhibit 1

1. Extracts from the letter from Mita

Extracts from the letter from Mita – dated 2 March 2020

Sale of 4,000 ordinary shares in Porth Ltd

On 1 May 2020, I am going to sell 4,000 shares in Porth Ltd to my brother, Ned. I note from the work you have already done that the current market value of these shares is £260,000. However, because I am keen to get Ned involved, I have agreed a price of £200,000. Ned, who is UK resident, will sign the claim for capital gains tax gift relief in respect of this sale.

Joint venture – Quod Ltd

On 1 April 2020, I shall incorporate a new company, Quod Ltd. On that day, Quod Ltd will register for value added tax (VAT) and begin to trade. It will develop a range of products over the next few years.

The planned ownership of the ordinary share capital of Quod Ltd is as follows:

- Porth Ltd: 60%
- Either Mr Berm or Mr Berm's company, BJB Ltd: 30%
- CX Ltd: 10%

Porth Ltd, BJB Ltd and CX Ltd are UK resident companies. Mr Berm is resident in the UK.

Quod Ltd – financial information

I have calculated Quod Ltd's budgeted tax adjusted trading loss for the year ending 31 March 2021 to be £44,000.

When calculating the loss, I deducted the whole of the costs attributable to scientific research amounting to £102,000 (note 1). I also deducted £1,000 in respect of the Cloque brand (note 2), as it will be amortised over a period of 35 years.

Note 1: Scientific research costs

<table>
<thead>
<tr>
<th>Description</th>
<th>£</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equipment and computer hardware</td>
<td>27,500</td>
</tr>
<tr>
<td>Materials</td>
<td>21,000</td>
</tr>
<tr>
<td>Rent</td>
<td>17,400</td>
</tr>
<tr>
<td>Electricity and water</td>
<td>6,600</td>
</tr>
<tr>
<td>Staff costs</td>
<td>29,500</td>
</tr>
</tbody>
</table>

- The rent is an appropriate allocation of the rent payable for Quod Ltd's premises for the year.
- All of the staff costs relate to employees of Quod Ltd with the exception of £7,000 paid to an external contractor provided by an unconnected company.

Note 2: Purchase of the Cloque brand

On 1 April 2020, Quod Ltd will purchase the Cloque brand for £35,000. Advice will then be required on how to develop this brand through the use of social media. It is intended that Quod Ltd will purchase this advice from a company based outside the EU (in a country where the rate of VAT is 9%) rather than as a standard rated supply from a VAT registered supplier based in the UK.
Acquisition of Ryb Ltd

On 1 May 2020, Porth Ltd will purchase the whole of the ordinary share capital of Ryb Ltd. For the purposes of UK tax, Ryb Ltd is resident in the UK. Ryb Ltd trades through a permanent establishment (PE) in the country of Tirona.

Ryb Ltd’s budgeted taxable trading profit for the year ending 31 March 2021, all of which relates to its activities in Tirona, is £75,000. Ryb Ltd has no other source of taxable income and is not expected to make any chargeable gains during the year.

Once we are confident of the profitability of the PE in Tirona, it is intended that Ryb Ltd will establish PEs in two other countries.
Exhibit 2

Extracts from the email from your manager – dated 3 March 2020

Additional information in respect of Porth Ltd, Quod Ltd and Ryb Ltd

Porth Ltd
- Mita owns the whole of the ordinary share capital of Porth Ltd, which is an unquoted trading company.
- Mita began trading as an unincorporated business on 1 June 2012. On 1 April 2015, when the assets of her business were worth £120,000, she incorporated her business by selling all of the assets to Porth Ltd in exchange for 10,000 ordinary shares. This sale resulted in total chargeable gains of £37,400, all of which were relieved by incorporation relief.
- Porth Ltd prepares accounts to 31 March each year. It does not own any assets other than those which are used in its trade.

Quod Ltd
- Quod Ltd will be a small enterprise for the purposes of the additional tax relief available for expenditure on research and development.
- I have already established that the research to be carried out by Quod Ltd will qualify for this relief.
- Quod Ltd WILL NOT surrender any part of the loss in return for a cash refund from HM Revenue and Customs (HMRC).

Ryb Ltd
- Ryb Ltd has not made an election to exempt the profits of its overseas permanent establishment (PE) from UK tax.
- The rate of corporation tax in the country of Tirona is 14%. Other than that, the tax system in Tirona is the same as that in the UK. There is no double tax treaty between the UK and Tirona.

Please carry out the following work:

(a) Sale of 4,000 shares in Porth Ltd on 1 May 2020
- Calculate Mita’s capital gains tax (CGT) liability in respect of this proposed sale to Ned assuming all available reliefs will be claimed.
  Mita is resident in the UK. You should assume she will be a higher rate taxpayer in the tax year 2020/21 and that the CGT annual exempt amount WILL NOT be available to her.

(b) Quod Ltd
- Explain the tax deduction which will be available to Quod Ltd in respect of the scientific research costs of £102,000 to be incurred in the year ending 31 March 2021.
- Explain the tax treatment of the proposed purchase of the Cloque brand (an intangible fixed asset) for £35,000.
- Calculate the amended budgeted tax adjusted trading loss for Quod Ltd for the year ending 31 March 2021 taking into account the explanations requested above.
Exhibit 2 (continued)

- Explain how much of Quod Ltd's amended budgeted trading loss will be available for use by Porth Ltd.
- Explain the value added tax (VAT) implications of Quod Ltd purchasing advice from the overseas supplier, rather than the one based in the UK.

(c) Ryb Ltd
- Explain why the profits of Ryb Ltd are subject to UK corporation tax.
- Calculate Ryb Ltd's expected UK corporation tax liability for the year ending 31 March 2021 based on the information available.
- Discuss the advantages and disadvantages of Ryb Ltd making an election to exempt the profits of its PE in Tirona from UK tax.

Tax manager
Section B Introduction

This section of the exam contains two questions.
Each question is worth 20 marks and is compulsory.
This exam section is worth 40 marks in total.

Important:
- You should assume that the tax rates and allowances for the tax year 2018/19 and for the financial year to 31 March 2019 will continue to apply for the foreseeable future unless you are instructed otherwise.
- Calculations and workings need only be made to the nearest £.
- All apportionments should be made to the nearest month.
- You must:
  - Indicate which requirement each of your responses relate to so that this is clear for markers.
  - Show all notes/workings that you want the marker to see within your responses. Remember, any notes/workings made on the Scratch Pad or on your workings paper will not be marked.

Select Next to continue.
Question 3

Tomas requires advice on the tax implications of commencing to trade, the choice of accounting date for his business, and whether or not to register voluntarily for value added tax (VAT) purposes. Ines, his wife, requires advice on the tax implications of selling shares in respect of which relief has been obtained under the enterprise investment scheme (EIS).

The following exhibit, available on the left-hand side of the screen, provides information relevant to the question:

1. Scenario

This information should be used to answer the question requirements within your chosen response option(s).
Requirements

(a) On the assumption that Tomas prepares his first set of accounts to 31 March 2020, explain, with supporting calculations the difference in the total amount of tax payable by him for the tax year 2019/20 as a result of the profit on the sales of sporting memorabilia being treated as trading income, rather than chargeable gains.

(5 marks)

(b) Identify Tomas' basis period for the tax year 2020/21 if he adopts a year-end date of (1) 31 March, or (2) 30 April, and state TWO tax advantages for Tomas of adopting 30 April as his year-end date.

(5 marks)

(c) Explain TWO matters which Tomas should consider in deciding whether or not it will be financially beneficial to voluntarily register for value added tax (VAT).

(3 marks)

(d) Explain the tax implications for Ines of her intended sale of the Tavira Ltd shares on 1 June 2020, and calculate her after-tax proceeds from this sale.

(7 marks)
Exhibit 1

**1. Scenario**

**Tomas:**
- Is UK resident and domiciled.
- Uses his capital gains tax (CGT) annual exempt amount every year.
- Receives dividends of £2,000 every year.

**Tomas – sale of sporting memorabilia:**
- Tomas started selling items of sporting memorabilia from his collection during the tax year 2018/19.
- HM Revenue and Customs (HMRC) agreed that these sales should be subject to CGT in the tax year 2018/19.
- In April 2019, Tomas started purchasing and selling more items of sporting memorabilia, such that HMRC have said that he will be regarded as trading with effect from 6 April 2019.
- Tomas will not be required to register for value added tax (VAT) for the foreseeable future.
- Tomas will, however, consider registering voluntarily for VAT if it is financially beneficial for him to do so.

**Tomas – expected trading results from the sale of sporting memorabilia:**
- Tomas is considering either a 31 March or 30 April year end for his business.
- Tomas estimates that his total income less expenditure for the 12 months ending 31 March 2020 will be £11,500.
- Each item of memorabilia is purchased and sold for no more than £1,000.
- All of the costs he incurs are deductible for tax purposes.
- Tomas expects his profits to increase steadily after 1 April 2020.

**Ines:**
- Is UK resident and domiciled.
- Is a higher rate taxpayer.
- Has made/will make no disposals for CGT purposes, other than as described below.

**Ines – sale of painting:**
- Ines sold a painting on 4 July 2017 for proceeds of £196,000.
- The sale gave rise to a gain of £86,000.

**Ines – acquisition of shares in Tavira Ltd:**
- Ines subscribed £72,000 for 20,000 shares in Tavira Ltd on 8 October 2017.
- These shares are qualifying enterprise investment scheme (EIS) shares.
- Ines elected to defer the maximum possible amount of the gain on the sale of the painting against the acquisition of these shares.
- Ines obtained EIS relief of £18,600 against her income tax liability for the tax year 2017/18.
- Ines intends to sell all of the shares in Tavira Ltd for £95,000 on 1 June 2020.
- If undertaken, this sale would qualify for entrepreneurs’ relief.
Pedro requires advice on the reason he has had to pay inheritance tax in respect of a holiday cottage following the death of his aunt, Marina, an explanation of why his letting of this cottage qualifies as a furnished holiday letting, and the income tax implications of a significant contribution into his personal pension scheme.

The following exhibit, available on the left-hand side of the screen, provides information relevant to the question:

1. Scenario

This information should be used to answer the question requirements within your chosen response option(s).
Requirements

(a) Explain the inheritance tax implications of the gift of the cottage to Pedro at the time the gift was made, and as a result of Marina’s death.

(5 marks)

(b) Explain, by reference to the relevant conditions, why the holiday cottage will qualify as a furnished holiday letting for the first 12-month period of letting.

(5 marks)

(c) Calculate the reduction in Pedro’s income tax liability for the tax year 2019/20 as a result of making the planned contribution of £85,000 (gross) into his personal pension scheme on 31 March 2020. Your answer should include an explanation of the amount of the personal allowance available to Pedro in this case.

(10 marks)
Pedro:
- Was given a holiday cottage in the UK by his aunt, Marina, on 4 March 2009.
- Paid inheritance tax in respect of this gift of the holiday cottage, following Marina’s death on 8 June 2019.
- Inherited a portfolio of UK unfurnished residential properties, valued at £670,000 on Marina’s death.

Gift of the holiday cottage in the UK by Marina:
- Marina and Pedro agreed that she could stay in the house for two months each year, rent-free, which she did every year until her death.
- For the remainder of each year, Marina lived in her main home.

Pedro – property income:
- The cottage (which is fully furnished) has been available for rental on a commercial basis since 1 July 2019, and will have a 70% occupancy rate for the first year of letting.
- No tenant will have stayed in the cottage for more than 14 consecutive days during the first year of letting.
- The net rental income from the cottage in the tax year 2019/20 will be £14,500.
- In the tax year 2019/20, Pedro will also receive net rental income of £32,000 from the unfurnished residential properties which he inherited from Marina.

Employment income:
- Pedro has been employed by Loule Ltd since 6 April 2018.
- Pedro receives an annual gross salary of £75,000 from Loule Ltd.
- Loule Ltd has contributed £8,000 in each of the tax years 2018/19 and 2019/20 to its occupational pension scheme on behalf of Pedro.

Personal pension scheme:
- Pedro had never been a member of a pension scheme prior to taking up employment with Loule Ltd.
- Pedro wishes to start contributing to a personal pension scheme in the tax year 2019/20.
- Pedro intends to make his first contribution into the new personal pension scheme, of £85,000 (gross), on 31 March 2020.
- The annual allowance available to Pedro was not restricted in any previous tax year.
- Pedro’s income tax liability for the tax year 2019/20, before taking into account the planned contribution into his personal pension scheme, is £41,260.