

Taxation-UK

December 2020 exam (20/21 Syllabus)

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.

Introduction screen

TX-UK December 2020 (20/21 syllabus)

Introduction

These sample questions show the likely style and range of **constructed response questions** that could be asked in the live exam.

You should use these questions to become familiar with the question types and the features and functionality contained within the live exam.

The practice exam is reflective of the constructed response section of the live exam but has some differences:

- The live exam will be timed however there is no time limit in this exam.
- Once you have started this exam you are able to leave at any time by closing the browser window. When you return, anything you have entered into the response options will be saved and you can continue sitting the exam.
- In the live exam your answers to the constructed response questions will be expert-marked. At the end of this exam you should use the solution material provided to assess your performance in the constructed response questions.
- You will be able to access solution material at the end of this exam when using the Self-Marking resources which include a Marking Guide and/or Sample Answer for each question. If you wish to access these without completing the questions, click on **End Exam** on the Item Review Screen and navigate to the Marking tab on the Dashboard to Self-Mark.

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Instruction screens

TX-UK December 2020 (20/21 syllabus)

Instructions (1 of 4)

The instructions displayed below are representative of those displayed in the live exam. Where there are differences between this exam and the live exam these are explained.

General Instructions

- In this exam, the instruction screens are not timed however in the live exam they will be available for a maximum of 10 minutes prior to the exam starting.
- In the live exam, the stated exam time will automatically start once the 10 minute period has passed (or earlier if you choose to start the exam within the 10 minute period).
- A copy of the instruction screens can be accessed at any time during the exam by selecting the Help button provided.

Answering and Navigating

- Please read each question carefully.
- 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.
- A warning message will display to remind you that you cannot navigate away from a question if you have not viewed all of the question content. Ensure that you use all scrollbars and/or open any on-screen exhibits before navigating from each question.
- Some questions have the scenario and answer area divided by either a horizontal or vertical splitter bar. You can move this splitter bar to see more or less of the scenario or answer area.
- Please ensure you provide an answer for all elements of each question.
- You can revisit questions and change your answers at any time during the exam.

Flag for Review

- If you wish to revisit/review a question later in the exam, click  **Flag for Review**
- Click the button again if you no longer wish to revisit/review the question later in the exam.

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Instruction screens (continued)

TX-UK December 2020 (20/21 syllabus)

Instructions (2 of 4)

Help

- Click the **Help** button provided to access:
- A copy of these exam instructions.
- Help and guidance on constructed response questions
- 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**,  **Help/Formulae Sheet** or  **Help/Tax Tables**

Calculator

- You have the option to use the on-screen standard or scientific calculators by selecting  **Calculator**
- Note that in the live exam you are also permitted to use your own calculator providing it does not have the facility to store or display text.

Highlight and Strikethrough

- You can highlight key phrases or figures in the question scenario by selecting  **Highlight**
- You can strikethrough text in the question scenario by selecting  **Strikethrough**
- Highlighted and strikethrough text will be displayed on all questions relating to the scenario.

Workings/Scratch Pad

- You may use an on-screen Scratch Pad to make notes/workings by selecting  **Scratch Pad**
- The Scratch Pad retains all notes/workings entered for all questions and these are available for the duration of the exam. They will not be submitted for marking after your live exam.
- You will also be provided with paper for notes/workings for your live exam, should you prefer to use it. This will not be submitted for marking. It 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 during the live exam will not be marked.
 - If you want the marker to see any notes/workings for questions in the constructed response section of the live exam you must show them within the answer areas.

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Instruction screens (continued)

TX-UK December 2020 (20/21 syllabus)

Instructions (3 of 4)

Copy and Paste

- You can copy and paste from the Scratch Pad or question scenario into your answers in the constructed response section of the exam by using the Ctrl-C (Copy) and Ctrl-V (Paste) shortcuts. **Note:** When pasting into a spreadsheet in the live exam you must double-click the cell or paste directly into the formula bar. In this exam you can also paste into the spreadsheet by selecting the cell.

Symbol

- You can add a selection of currency symbols to your answers in the constructed response section of the exam by selecting **\$ Symbol** on the top toolbar.

Navigator Screen

- The Navigator screen 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 questions and whether they have been viewed, are complete or incomplete, or have been flagged for review.

Close All

- You can close each window (eg. Calculator or Scratch Pad) individually or you can close multiple windows by selecting **Close All** on the top toolbar.

Reviewing the exam

- You can review your exam once you have attempted any, or all, of the questions.
- To do this:
 - Navigate to the **last question** in the exam.
 - Click **Next →**
- This takes you to the Item Review screen.

← Previous Next →

Instruction screens (continued)

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Instructions (4 of 4)

Item Review Screen

- This screen gives you an opportunity to see the flag and completion status of all questions before you exit the exam.
- You can select individual questions you wish to revisit, or quickly access groups of questions from the Item Review screen.
- During the item review period Navigator is not available however you can navigate to questions by selecting **Next** → , ← **Previous** or → **Review Screen**
- When reviewing questions you can change your answer and click → **Review Screen** to view any updated status on the Item Review screen.

Ending the Exam

- Once you have completed your item review and wish to finally end the exam click ⇨ **End Exam**
- Once you end the exam, you cannot revisit any questions.

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

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Exam summary screen

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Exam Summary

Time allowed: This sample exam is not timed.

- You will be presented with **three constructed response** questions, each containing a scenario which relates to one or more requirement(s). The requirements may be split over multiple question screens.
- Each constructed response question is worth **10 or 15 marks** in total.
- **40 marks** in total.
- All questions are compulsory.

Important:

1. Calculations and workings need only be made to the nearest £.
2. All apportionments should be made to the nearest month.
3. In your live exam you must:
 - Enter your answer for each question in the response area provided for that question. Any answers entered into a response area provided for a different question will not be marked.
 - Show all notes/workings that you want the marker to see within the response area provided for the question. Remember, any notes/workings made on the Scratch Pad or on your workings paper will not be marked.

Select **Next** to start your exam.

← Previous **Next** →

Sample exam questions

Scenario 1

This scenario relates to four requirements.

You should assume that today's date is 6 April 2019.

You are a trainee Chartered Certified Accountant dealing with the tax affairs of Aurora.

Let properties

Aurora owns three freehold residential properties which are all let out. Properties 1 and 3 qualify for principal private residence (PPR) relief because, at separate times, they were previously occupied by Aurora immediately after purchasing each one. These two properties also have outstanding interest-only mortgages. Details are as follows:

	Property 1	Property 2	Property 3
	£	£	£
Current value	350,000	350,000	350,000
Outstanding interest-only mortgage	(115,000)	0	(115,000)
Chargeable gain if sold (before any reliefs)	100,000	150,000	150,000
Period of ownership	15 years	15 years	20 years
Period lived in as PPR throughout ownership period	2 years	0 years	12 years

All three properties have been let out during any periods when not occupied by Aurora as her principal private residence. None of the properties were let as furnished holiday accommodation.

Inheritance tax

Aurora's only other asset is her current main residence valued at £500,000. This property does not have a mortgage. Under the terms of her will, Aurora's entire estate is left to her children.

Aurora's husband, Andrew, died on 15 August 2017, with all of his estate left to Aurora. During February 2017, Aurora and Andrew both made lifetime gifts of assets to their children which fully utilised their respective inheritance tax (IHT) nil rate bands of £325,000.

Sale of one of the three let properties

Aurora is planning to sell one of her three let properties during May 2019, and wants to sell the one which will result in the lowest chargeable gain after taking into account any available reliefs. Her rough calculations indicate that this will be property 3.

Personal pension contribution

After selling one of the three let properties and paying off the outstanding mortgages, Aurora will have £120,000 available. She wants to use this money to make net personal pension contributions of £40,000 in each of the tax years 2019-20, 2020-21 and 2021-22, and would like to know the total amount of income tax relief from which she will benefit as a result of making the contribution for the tax year 2019-20. Aurora has sufficient unused brought forward annual allowances to cover the three annual net pension contributions of £40,000.

For each of the tax years 2019-20, 2020-21 and 2021-22, Aurora will have taxable income of £87,500 after deducting the personal allowance of £12,500 from her total income of £100,000 (consisting of self-employed profits of £80,000 and property income of £20,000).

Scenario 1: requirements

(a) Calculate the IHT payable in respect of Aurora's estate if she were to die on 6 April 2019.

(3 marks)

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(b) Assuming Aurora does not die on 6 April 2019, for each one of her three let properties, calculate the chargeable gain (after taking account of any available reliefs, but before deducting the annual exempt amount) if she sells that property during May 2019.

(3 marks)

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Scenario 1: requirements (continued)

(c)(i) Calculate the total amount of income tax relief which Aurora will benefit from as a result of making a net pension contribution of £40,000 during the tax year 2019-20.

Note: You are not expected to prepare full tax computations.

(3 marks)

(ii) Explain why it is beneficial for Aurora to restrict her net personal pension contributions to £40,000 for each of the three tax years 2019-20, 2020-21 and 2021-22.

Note: You should assume that the tax rates and allowances for the tax year 2019-20 apply throughout.

(1 mark)

(10 marks)

The screenshot shows a spreadsheet application interface. At the top, there is a menu bar with 'Edit' and 'Format'. Below the menu bar is a toolbar containing various icons for editing and formatting, such as undo, redo, copy, paste, and text alignment. The main area of the spreadsheet is a grid of cells. The first cell, A1, is selected and highlighted in yellow. The grid extends to column O and row 6. The interface is clean and professional, typical of a software application used for accounting or financial analysis.

Scenario 2

This scenario relates to two requirements.

Sam and Tam have been in partnership since 1 July 2006 preparing accounts to 30 June. Tam retired as a partner on 31 October 2019, with Uma replacing her as a partner on 1 November 2019.

Sam has always received an 80% share of the partnership's profits, with Tam, and then Uma, receiving a 20% share.

The partnership's recent trading profits are as follows:

	£
Year ended 30 June 2019	137,500
Year ended 30 June 2020	132,000

Sam and Tam have unused overlap profits brought forward of £31,200 and £7,800 respectively.

Sam

For the tax year 2019-20, Sam does not have any other income apart from her 80% share of the partnership's profits.

Tam

In addition to her 20% share of the partnership's profits, for the tax year 2019-20 Tam was employed by XZQ plc between 6 April and 31 October 2019 and received pension income between 1 November 2019 and 5 April 2020. The following information is available for the tax year 2019-20:

- (1) From 6 April to 31 October 2019, Tam received a monthly gross salary of £3,400 from XZQ plc.
- (2) During the period 6 April to 31 October 2019, Tam contributed 5% of her monthly gross salary into XZQ plc's HM Revenue and Customs (HMRC) registered occupational pension scheme. XZQ plc contributed a further 10% on her behalf.
- (3) During the period 6 April to 31 October 2019, XZQ plc provided Tam with a diesel powered motor car which had a list price of £36,600 and an official CO₂ emission rate of 89 grams per kilometre. The motor car met the real driving emissions 2 (RDE2) standard. Tam was not provided with any fuel for private journeys.
- (4) XZQ plc provided Tam with an interest-free loan to purchase a motorbike. The balance of the loan outstanding at 6 April 2019 was £6,400, and Tam repaid the loan in full on 31 October 2019.
- (5) During the period 1 November 2019 to 5 April 2020, Tam received the state pension of £3,650 and a pension of £11,300 from XZQ plc's occupational pension scheme. These were the total gross amounts received.

Uma

In addition to her 20% share of the partnership's profits, Uma was employed by ABCD plc throughout the tax year 2019-20 as a marketing director. The following information is available for the tax year 2019-20:

- (1) Uma was paid gross annual director's remuneration of £180,000 by ABCD plc.
- (2) During the tax year 2019-20, Uma paid interest of £2,100 (gross) on a personal loan taken out to purchase her share in the partnership.
- (3) During the tax year 2019-20, Uma received dividend income of £2,400.

Requirements for Scenario 2

(a) Calculate the trading income assessments of Sam, Tam and Uma for the tax year 2019-20.

(5 marks)

(b) Calculate the taxable income of Sam, Tam and Uma for the tax year 2019-20.

Note: You should indicate by the use of zero (0) any items which are not taxable or deductible.

(10 marks)

(15 marks)

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Scenario 3

This scenario relates to three requirements.

You should assume that today's date is 25 March 2020.

Harbour Ltd has previously prepared accounts to 30 November, but has decided to change its accounting date to 31 March to be coterminous with the corporation tax financial year. The company's forecast draft statement of profit or loss for the four-month period ending 31 March 2020 is as follows:

	Note	£
Operating profit	1	715,500
Other income:		
Property business income	2	13,800
Chargeable gain	3	104,300
Finance costs:		
Interest paid	4	(24,600)
Profit before taxation		<u>809,000</u>

Notes

(1) Depreciation of £11,760 and amortisation of leasehold property of £1,300 (see below) have been deducted in arriving at the operating profit figure of £715,500.

On 1 December 2019, Harbour Ltd acquired a leasehold office building, paying a premium of £78,000 for the grant of a 20-year lease. The office building will be used for business purposes by Harbour Ltd throughout the four-month period ending 31 March 2020.

(2) Harbour Ltd lets out a freehold warehouse which is surplus to requirements. On 1 December 2019, the tenant paid rent of £15,600 for the six-month period to 31 May 2020. On 1 December 2019, Harbour Ltd paid insurance of £1,800 for the year ended 30 November 2020.

(3) The chargeable gain is in respect of the disposal of investments on 10 March 2020. No indexation allowance is available.

(4) The interest paid is in respect of Harbour Ltd's 6% loan notes, with interest for six months of £24,600 being paid on 1 January 2020. Interest of £12,300 will be accrued at 31 March 2020, with the corresponding accrual at 1 December 2019 being £20,500. The loan notes were issued in order to finance the company's trading activities.

Capital allowances

The tax written down value of both the main pool and the special rate pool as at 1 December 2019 was £0.

On 12 January 2020, Harbour Ltd purchased plant and machinery for £548,000. This will be a long-life asset for capital allowance purposes.

Requirements for Scenario 3

(a) Calculate Harbour Ltd's corporation tax liability for the four-month period ending 31 March 2020.

Note: Your computation should commence with the operating profit figure of £715,500.

(10 marks)

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The directors of Harbour Ltd now realise that it will be beneficial for the company to prepare accounts for the year ending 30 November 2020 rather than for the four-month period ending 31 March 2020. This conclusion is based on the following information which is available in respect of the period 1 April to 30 November 2020:

(1) Harbour Ltd will not purchase any further plant and machinery during this period, so the full annual investment allowance of £1,000,000 will be available in respect of the long-life plant and machinery purchased on 12 January 2020 for £548,000.

(2) Harbour Ltd will sell an investment on 10 April 2020 and this disposal will result in an allowable capital loss of £42,000.

(b)(i) Briefly explain the difference between tax evasion and tax avoidance, and how HM Revenue and Customs (HMRC) are likely to view the situation if Harbour Ltd extends its accounting period in order to save corporation tax.

(3 marks)

(ii) If Harbour Ltd prepares accounts for the year ending 30 November 2020 rather than for the four-month period ending 31 March 2020, calculate the revised figures that will be included in respect of capital allowances and chargeable gains.

(2 marks)

(15 marks)

Paragraph

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Paragraph

Example view of full CBE constructed response workspace

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Symbol Highlight Strikethrough Calculator Scratch Pad
Close All Flag for Review

This scenario relates to four requirements.

You should assume that today's date is 6 April 2019.

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Let properties

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Aurora's husband, Andrew, died on 15 August 2017, with all of his estate left to Aurora. During February 2017, Aurora and Andrew

(a) Calculate the IHT payable in respect of Aurora's estate if she were to die on 6 April 2019. (3 marks)

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Sheet1

Help/Tax Tables Review Screen Navigator Next