Answers

Section C *Marks*

1 Jade

(a) Difference between tax evasion and tax avoidance

Tax evasion is illegal and involves the reduction of tax liabilities by not providing information to which HM Revenue and Customs (HMRC) is entitled, or providing HMRC with deliberately false information. 1

In contrast, tax avoidance involves the minimisation of tax liabilities by the use of any lawful means. 1

2

(b) Income tax payable and class 1 NICs suffered by Emerald

Emerald will not have any income tax liability for 2020–21 because her salary of £6,000 is less than the personal allowance of £12,500. ½

Employee class 1 NICs will be:

2,000 – (9,500/12) at 12% x 3 = £435 1½

2

Tutorial note: *The alternative approach using the annual earnings threshold and then taking 3/12ths of an annual NIC figure is acceptable.*

(c) Jade's overall saving

		£	
Emerald	Salary (2,000 x 3)	6,000	½
	Employer class 1 NICs (working)	525	W
Annual investment allowance (14,000 x 100%)		14,000	1
Key employee	Bonus	10,000	½
	Employer class 1 NICs (10,000 at 13·8%)	1,380	1
Drawings		0	½
		31,905	
Income tax saving 31,905 at 45%		14,357	½
NICs saving 31,905 at 2%		638	½

Tutorial note: *The level of a business owner's drawings has no impact on the income tax liability or class 4 NICs.*

Working – Employer class 1 NICs

2,000 – (8,788/12) at 13·8% x 3 = £525 1½

6

10

Marks

2 Amanda

(a) Amanda's taxable benefit on living accommodation

	£	£	
Annual value		6,300	½
Additional benefit			
Cost 10 February 2018	174,000		1
Improvements	8,000		½
	182,000		
Limit	(75,000)		½
	107,000		
Additional benefit 107,000 at 2·25%		2,408	½
Furniture 12,400 x 20%		2,480	1
		11,188	
Prorated 11,188 x 5/12		4,662	1
			5

Tutorial note: *The property was purchased less than six years before first being provided to Amanda. The additional benefit is therefore based on the cost of the property plus the cost of subsequent improvements.*

(b) Amanda – Share of partnership loss

	£	
1 January 2020 to 28 February 2020		
10,800 x 2/12 x 1/3	600	1
1 March 2020 to 31 December 2020		
10,800 x 10/12 x 15%	1,350	1
	1,950	
		2

(c) Amanda – Income tax repayable

	£	
Taxable income	44,500	
£		
37,500 at 20%	7,500	½
800 (640 x 100/80) at 20%	160	1
6,200 (44,500 – 37,500 – 800) at 40%	2,480	½
44,500		
Income tax liability	10,140	
Tax suffered at source – PAYE (900 x 12)	(10,800)	1
Income tax repayable	(660)	
Child benefit income tax charge		
2,547 x 62% ((57,000 – 800 – 50,000)/100)	1,579	2
		5

(d) Overall saving

	£	
Amanda tax saving		
Income tax saving 2,000 at 40%	800	1
Reduction in child benefit income tax charge 2,547 x 20% (2,000/100)	509	1
Husband tax cost		
2,000 x 20%	(400)	1
Overall saving	909	
		3
		15

Marks

3 Fogo Ltd

(a) Net chargeable gains

Investment property

		£	
Proceeds		625,000	½
Cost		(500,000)	½
		125,000	
Indexation allowance	(500,000 x 0·269)	(134,500)	1
Indexation cannot create a loss		0	½

Warehouse

		£	
Proceeds		560,000	½
Cost		(100,000)	½
		460,000	
Indexation allowance	(100,000 x 0·593)	(59,300)	1
Gain		400,700	

Net gains

	£	
Investment property	0	
Warehouse	400,700	
Shares	(25,000)	½
	375,700	
		5

(b) (i) Group rollover relief

Fogo Ltd and Netta Ltd are in a gains group because Netta Ltd is a 75% subsidiary of Fogo Ltd.

The warehouse is a qualifying asset and was used exclusively in Fogo Ltd's trade.

Netta Ltd's asset acquisitions took place within one year before and three years after the disposal.

Any two of the above three for a maximum of 2

The fixed plant and machinery is a qualifying replacement asset which is used in Netta Ltd's trade. 1

The shares are not business assets. 1

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(ii) Deferred gain

The amount of the gain which can be deferred is £390,700 (400,700 – (560,000 – 550,000)). 1

The deferred gain is frozen and will become chargeable on the earliest of the following events:

– the plant and machinery is sold;
– the plant and machinery is no longer used in Netta Ltd's trade; and
– ten years from the date of acquisition of the plant and machinery. 2

3

Tutorial note: *The amount of the gain which can be deferred is restricted because not all of the proceeds from the sale of the warehouse were reinvested in the fixed plant and machinery.*

(c) Netta Ltd – Taxable total profits for the year ended 30 September 2020

	£	*Marks*
Draft tax adjusted trading profit	180,000	
Less interest payable on loan used to:		
Acquire fixed plant and machinery	(27,500)	1
Revised tax adjusted trading income	152,500	

Non-trade loan relationship income

	£	
Non-trade loan interest receivable	35,000	1
Non-trade loan interest payable	(22,500)	1
	12,500	
Taxable total profit	165,000	
		3
		15