

Fundamentals Level – Skills Module

Taxation (United Kingdom)

Tuesday 3 June 2014



Time allowed

Reading and planning: 15 minutes

Writing: 3 hours

ALL FIVE questions are compulsory and MUST be attempted.
Rates of tax and tables are printed on pages 2–5.

Do NOT open this paper until instructed by the supervisor.

During reading and planning time only the question paper may be annotated. You must NOT write in your answer booklet until instructed by the supervisor.

This question paper must not be removed from the examination hall.

The Association of Chartered Certified Accountants

Paper F6 (UK)

ACCA

SUPPLEMENTARY INSTRUCTIONS

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

TAX RATES AND ALLOWANCES

The following tax rates and allowances are to be used in answering the questions.

	Income tax	Normal rates	Dividend rates
		%	%
Basic rate	£1 – £32,010	20	10
Higher rate	£32,011 – £150,000	40	32·5
Additional rate	£150,001 and over	45	37·5

A starting rate of 10% applies to savings income where it falls within the first £2,790 of taxable income.

Personal allowance

Personal allowance

Born on or after 6 April 1948	£9,440
Born between 6 April 1938 and 5 April 1948	£10,500
Born before 6 April 1938	£10,660

Income limit

Personal allowance	£100,000
Personal allowance (born before 6 April 1948)	£26,100

Residence status

Days in UK	Previously resident	Not previously resident
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 CO₂ emissions is 95 grams per kilometre.

The percentage rates applying to petrol cars with CO₂ emissions up to this level are:

75 grams per kilometre or less	5%
76 grams to 94 grams per kilometre	10%
95 grams per kilometre	11%

Car fuel benefit

The base figure for calculating the car fuel benefit is £21,100.

Individual savings accounts (ISAs)

The overall investment limit is £11,520, of which £5,760 can be invested in a cash ISA.

Pension scheme limit

Annual allowance £50,000

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

	%
Plant and machinery	
Main pool	18
Special rate pool	8
Motor cars	
New cars with CO ₂ emissions up to 95 grams per kilometre	100
CO ₂ emissions between 96 and 130 grams per kilometre	18
CO ₂ emissions over 130 grams per kilometre	8
Annual investment allowance	
First £250,000 of expenditure (since 1 January 2013)	100

Cap on income tax reliefs

Unless otherwise restricted, reliefs are capped at the higher of £50,000 or 25% of income.

Corporation tax

Financial year	2011	2012	2013
Small profits rate	20%	20%	20%
Main rate	26%	24%	23%
Lower limit	£300,000	£300,000	£300,000
Upper limit	£1,500,000	£1,500,000	£1,500,000
Standard fraction	3/200	1/100	3/400

Marginal relief

Standard fraction x (U – A) x N/A

Value added tax (VAT)

Standard rate	20%
Registration limit	£79,000
Deregistration limit	£77,000

Inheritance tax: tax rates

£1 – £325,000	Nil
Excess – Death rate	40%
– Lifetime rate	20%

Inheritance tax: taper relief

Years before death	Percentage reduction
	%
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

Rates of tax – Lower rate	18%
– Higher rate	28%
Annual exempt amount	£10,900
Entrepreneurs' relief – Lifetime limit	£10,000,000
– Rate of tax	10%

**National insurance contributions
(Not contracted out rates)**

			%
Class 1	Employee	£1 – £7,755 per year	Nil
		£7,756 – £41,450 per year	12·0
		£41,451 and above per year	2·0
Class 1	Employer	£1 – £7,696 per year	Nil
		£7,697 and above per year	13·8
Class 1A			13·8
Class 2		£2·70 per week	
		Small earnings exemption	£5,725
Class 4		£1 – £7,755 per year	Nil
		£7,756 – £41,450 per year	9·0
		£41,451 and above per year	2·0

Rates of interest (assumed)

Official rate of interest	4·0%
Rate of interest on underpaid tax	3·0%
Rate of interest on overpaid tax	0·5%

ALL FIVE questions are compulsory and MUST be attempted

1 Richard Tryer was born on 22 June 1971. He is employed by Prog plc as a computer programmer, and is also self-employed as a website designer. Richard has tried to prepare his own income tax computation for the tax year 2013–14, but he has found it more difficult than expected. Although the sections which Richard has completed are correct, there are a significant number of omissions. The omissions are marked as outstanding (O/S). The partly completed income tax computation is as follows:

Richard Tryer – Income tax computation 2013–14

	Note	£	£
Trading profit	1		O/S
Employment income			
Salary		41,000	
Car benefit	2	O/S	
Fuel benefit	2	O/S	
Living accommodation	3	O/S	
		<hr/>	
Property business profit	4		O/S
Building society interest			1,260
Dividends			O/S
			<hr/>
Personal allowance			O/S
			(9,440)
			<hr/>
Taxable income			O/S
			<hr/>
Income tax			
32,010 at 20%			6,402
O/S at 40%			O/S
O/S at 32.5%			O/S
			<hr/>
O/S			O/S
			<hr/>
Income tax liability			O/S
Tax suffered at source			
PAYE		9,130	
Building society interest		O/S	
Dividends		180	
		<hr/>	
			(O/S)
			<hr/>
Income tax payable			O/S
			<hr/>

Note 1 – Trading profit

Richard commenced self-employment on 1 January 2013. He had a tax adjusted trading profit of £3,840 for the four-month period ended 30 April 2013, and £12,060 for the year ended 30 April 2014. These figures are **before** taking account of capital allowances.

The only item of plant and machinery owned by Richard is his motor car, which cost £18,000 on 1 September 2013. The motor car has a CO₂ emission rate of 142 grams per kilometre, and 70% of the mileage driven by Richard is for private journeys.

Note 2 – Car and fuel benefits

Throughout the tax year 2013–14, Prog plc provided Richard with a petrol-powered motor car which has a list price of £17,900. The motor car cost Prog plc £17,200, and it has a CO₂ emission rate of 144 grams per kilometre. During the tax year 2013–14, Richard made contributions of £1,200 to Prog plc for the use of the motor car.

During the period 1 July 2013 to 5 April 2014, Prog plc also provided Richard with fuel for private journeys. The total cost of fuel during the period 1 July 2013 to 5 April 2014 was £4,200, of which 45% was for private journeys. Richard did not make any contributions towards the cost of the fuel.

Note 3 – Living accommodation

Throughout the tax year 2013–14, Prog plc provided Richard with living accommodation. The property has been rented by Prog plc since 6 April 2013 at a cost of £1,100 per month. On 6 April 2013, the market value of the property was £122,000, and it has an annual value of £8,600.

On 6 April 2013, Prog plc purchased furniture for the property at a cost of £12,100. The company pays for the running costs relating to the property, and for the tax year 2013–14 these amounted to £3,700.

Note 4 – Property business profit

Richard owns a freehold shop which is let out unfurnished. The shop was purchased on 1 October 2013, and during October 2013 Richard spent £8,400 replacing the building's roof. The shop was not usable until this work was carried out, and this fact was represented by a reduced purchase price. During November 2013, Richard spent £800 on advertising the property for rent.

On 1 December 2013, the property was let to a tenant, with Richard receiving a premium of £12,000 for the grant of a 30-year lease. The monthly rent is £830 payable in advance, and during the period 1 December 2013 to 5 April 2014 Richard received five rental payments.

Due to a fire, £8,600 was spent on replacing the roof of the shop during February 2014. Only £8,200 of this was paid for by Richard's property insurance.

Richard paid insurance of £480 in respect of the property. This was paid on 1 October 2013 and is for the year ended 30 September 2014.

Other information

Richard did not make any personal pension contributions during the tax year 2013–14. He has never been a member of a pension scheme.

Required:

- (a) Calculate the income tax payable by Richard Tryer for the tax year 2013–14.** (19 marks)
- (b) Assuming that Richard Tryer received child benefit of £1,752 during the tax year 2013–14, advise him of the amount of child benefit income tax charge which he will be subject to and how this will be collected.** (2 marks)
- (c) Advise Richard Tryer why the maximum amount of tax relieviable personal pension scheme contribution which he could have made for the tax year 2013–14 is £50,000, and the method by which tax relief would have been given if he had made this amount of contribution.** (4 marks)

(25 marks)

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Question 2 begins on page 9.**

- 2 (a)** Long Ltd owns 100% of the ordinary share capital of both Wind Ltd and Road Ltd. Long Ltd and Road Ltd run freight transport businesses, whilst Wind Ltd provides transport related insurance services.

Long Ltd's shareholding in Wind Ltd was acquired on 1 April 2008 and the shareholding in Road Ltd was acquired on 15 January 2013 when that company was incorporated. Long Ltd and Wind Ltd have prepared accounts for the year ended 31 March 2014, whilst Road Ltd has prepared accounts for the period 1 January 2014 (when the company commenced trading) to 31 March 2014. The following information is available:

Long Ltd

- (1) The operating profit for the year ended 31 March 2014 is £384,400. Depreciation of £43,050 and leasing costs of £3,600 have been deducted in arriving at this figure. The leasing costs relate to a motor car with a CO₂ emission rate of 142 grams per kilometre, which was leased from 1 April 2013.
- (2) On 1 April 2013, the tax written down value of the plant and machinery main pool was £44,800. On 10 June 2013, Long Ltd purchased a lorry for £36,800 and a motor car for £15,700. The motor car has a CO₂ emission rate of 122 grams per kilometre. The motor car is used by the managing director of Long Ltd, and 40% of the mileage is for private journeys.
- (3) On 29 July 2013, Long Ltd disposed of a 2% shareholding in an unconnected company. The disposal resulted in a capital loss of £21,300.
- (4) During the year ended 31 March 2014, Long Ltd received a dividend of £41,400 from Wind Ltd, and dividends totalling £28,800 from unconnected companies. These figures are the actual cash amounts received.

Wind Ltd

- (1) The operating profit for the year ended 31 March 2014 is £62,900. Amortisation of £5,000 has been deducted in arriving at this figure. The amortisation relates to a premium which was paid on 1 August 2009 to acquire a leasehold office building on a 20-year lease. The amount of premium assessed on the landlord as income was £68,200. The office building was used for business purposes by Wind Ltd throughout the year ended 31 March 2014.
- (2) On 1 April 2013, the tax written down value of the plant and machinery main pool was £900. There were no additions or disposals during the year ended 31 March 2014.
- (3) On 18 August 2013, Wind Ltd disposed of a 1% shareholding in an unconnected company. The disposal resulted in a chargeable gain of £29,800. This figure is after taking account of indexation.

Road Ltd

- (1) The operating loss for the three-month period ended 31 March 2014 is £26,100. Donations of £2,800 have been deducted in arriving at this figure. The donations consist of political donations of £400, and qualifying charitable donations of £2,400.
- (2) On 3 October 2013, Road Ltd purchased a motor car for £11,600. The motor car has a CO₂ emission rate of 85 grams per kilometre.
- (3) For the three-month period ended 31 March 2014, loan interest receivable was £4,300. The loan was made for non-trading purposes.

Other information

- (1) Long Ltd, Wind Ltd and Road Ltd do not have any other associated companies.
- (2) Road Ltd is not expected to be profitable for the foreseeable future.

Required:

On the assumption that any available reliefs are claimed on the most beneficial basis, calculate the corporation tax liabilities of Long Ltd and Wind Ltd for the year ended 31 March 2014, and of Road Ltd for the three-month period ended 31 March 2014. (17 marks)

- (b) Road Ltd's recently appointed bookkeeper understands that the company must report PAYE information to HM Revenue and Customs in real time. However, the bookkeeper does not know how PAYE real time reporting works in practice, having previously only produced payroll manually.

Road Ltd pays its employees at the end of each calendar month, with some employees receiving taxable benefits.

Required:

Explain how and when Road Ltd will have to report real time PAYE information to HM Revenue and Customs, and state what forms, if any, will have to be provided to employees or submitted to HM Revenue and Customs following the end of the tax year. (3 marks)

- (c) Note that in answering this part of the question, you are not expected to take account of any of the information provided in parts (a) or (b).

Long Ltd, Wind Ltd and Road Ltd are not registered as a group for value added tax (VAT) purposes. The following VAT information is available for the quarter ended 31 March 2014:

Long Ltd

- (1) All of Long Ltd's sales are standard rated for VAT.
- (2) Output VAT of £52,640 was charged in respect of sales. This figure includes output VAT of £1,760 on a deposit received on 28 December 2013. The deposit was in respect of a contract which was completed on 6 January 2014, with a sales invoice being issued on 20 January 2014.
- (3) In addition to the above, Long Ltd also charged output VAT of £1,940 on sales to Wind Ltd and output VAT of £960 on sales to Road Ltd.
- (4) The managing director of Long Ltd is provided with a company motor car which is used for both business and private mileage. The director reimburses Long Ltd for the 40% private use element. For the quarter ended 31 March 2014, input VAT of £140 was incurred in respect of the total cost of fuel.
- (5) Input VAT of £14,720 was incurred in respect of expenses. This figure includes input VAT of £560 in respect of repairs to the managing director's motor car, but it does not include the input VAT in respect of the cost of fuel (see note (4) above).
- (6) In addition to the above, Long Ltd has discovered that it has not been claiming for the input VAT of £18 which it has paid each month since 1 January 2008 for the hire of a photocopier.

Wind Ltd

- (1) All of Wind Ltd's sales are exempt from VAT.
- (2) Input VAT of £7,330 was incurred in respect of expenses. This includes input VAT of £1,940 incurred on purchases from Long Ltd.

Road Ltd

- (1) All of Road Ltd's sales are zero rated for VAT.
- (2) Road Ltd registered for VAT on 1 January 2014 and this is the company's first VAT return.
- (3) Input VAT of £3,120 was incurred in respect of expenses. This includes input VAT of £960 incurred on purchases from Long Ltd.
- (4) In addition to the above, Road Ltd incurred input VAT in respect of advertising expenditure as follows:

	£
April 2013	640
November 2013	380
	<hr/>
	1,020

Required:

Calculate the amount of value added tax (VAT) payable or recoverable, if any, by Long Ltd, Wind Ltd and Road Ltd for the quarter ended 31 March 2014. (10 marks)

(30 marks)

3 Mick Stone disposed of the following assets during the tax year 2013–14:

- (1) On 19 May 2013, Mick sold a freehold warehouse for £522,000. The warehouse was purchased on 6 August 2001 for £258,000, and was extended at a cost of £99,000 during April 2003. In January 2007, the floor of the warehouse was damaged by flooding and had to be replaced at a cost of £63,000. The warehouse was sold because it was surplus to the business's requirements as a result of Mick purchasing a newly built warehouse during 2012. Both warehouses have always been used for business purposes in a wholesale business run by Mick as a sole trader.
- (2) On 12 August 2013, Mick sold an acre of land for £81,700. He had originally purchased five acres of land on 19 May 1998 for £167,400. The market value of the unsold four acres of land as at 12 August 2013 was £268,000. The land has never been used for business purposes.
- (3) On 24 September 2013, Mick sold 700,000 £1 ordinary shares in Rolling Ltd, an unquoted trading company, for £3,675,000. He had originally purchased 500,000 shares in Rolling Ltd on 2 June 2005 for £960,000. On 1 December 2010, Rolling Ltd made a 3 for 2 bonus issue. Mick has been a director of Rolling Ltd since 1 January 2005.
- (4) On 19 January 2014, Mick made a gift of his entire holding of 24,000 £1 ordinary shares in Sugar plc, a quoted investment company, to his son, Keith. On that date the shares were quoted on the Stock Exchange at £6.98–£7.10, with recorded bargains of £6.85, £6.90, £7.00 and £7.05. The shares had been purchased on 8 May 2008 for £76,800. Mick's shareholding was less than 1% of Sugar plc's issued share capital, and he has never been an employee or a director of the company.

Required:

- (a) Assuming that no reliefs are available, calculate the chargeable gain arising from each of Mick Stone's asset disposals during the tax year 2013–14.**

Note: You are not required to calculate the taxable gains or the amount of tax payable. (9 marks)

- (b) State which capital gains tax reliefs might be available to Mick Stone in respect of each of his disposals during the tax year 2013–14, and what further information you would require in order to establish if the reliefs are actually available and to establish any restrictions as regards the amount of relief.**

Note: For this part of the question you are not expected to perform any calculations. (6 marks)

(15 marks)

- 4 Chi Needle was born on 27 August 1968. She commenced self-employment as an acupuncturist on 6 April 2013, and for the year ended 5 April 2014 her trading profit using the normal accruals basis was £52,400, calculated as follows:

	Note	£	£
Revenue	1		71,900
Expenses			
Motor expenses	2	4,400	
Other expenses	3	8,200	
Capital allowances	4	<u>6,900</u>	
			<u>(19,500)</u>
Trading profit			<u>52,400</u>

Note 1 – Revenue

The revenue figure of £71,900 includes receivables of £1,600 which were owed as at 5 April 2014.

Note 2 – Motor expenses

The total motor expenses for the year ended 5 April 2014 were £5,500, of which 20% was for private journeys. This proportion has been disallowed in calculating the trading profit. During the year ended 5 April 2014, Chi drove 13,200 business miles.

Note 3 – Other expenses

The other expenses figure of £8,200 includes payables of £900 which were owed as at 5 April 2014.

Note 4 – Capital allowances

Capital allowances consist of an annual investment allowance claim of £4,020 in respect of office equipment purchased on 6 April 2013, and a writing down allowance of £2,880 claimed in respect of Chi's motor car. The motor car had cost £20,000 on 6 April 2013.

Additional information

Chi has no other income for the tax year 2013–14.

She did not make any payments on account in respect of the tax year 2013–14.

Required:

(a) Based on the trading profit of £52,400 for the year ended 5 April 2014:

- (i) Calculate Chi Needle's income tax liability for the tax year 2013–14. (2 marks)
- (ii) Calculate the class 2 and class 4 national insurance contributions payable by Chi Needle for the tax year 2013–14. (3 marks)
- (iii) Determine the amount of income tax and national insurance contributions which will be due for payment under self-assessment by Chi Needle on 31 January 2015. (3 marks)

(b) Advise Chi Needle of the latest date by which a paper self-assessment tax return can be filed for the tax year 2013–14, and the deadline should she wish to make an amendment to this return. (2 marks)

(c) Calculate Chi Needle's trading profit for the year ended 5 April 2014 if she had used the cash basis instead of the accruals basis.

Notes:

- 1. Where relevant, expenses should be claimed on a flat rate basis.
- 2. You are not expected to recalculate the income tax liability or the national insurance contributions payable. (5 marks)

(15 marks)

5 You should assume that today's date is 1 January 2014.

Kendra Older, aged 93, is unfortunately in poor health with just a few months left to live. She has made the following gifts during her lifetime:

- (1) On 20 June 2006, Kendra made a cash gift of £146,000 to a trust. No inheritance tax arose in respect of this gift.
- (2) On 5 October 2012, Kendra made a cash gift of £253,000 to her children.

Kendra owns the following assets:

- (1) A property valued at £970,000. The property is no longer occupied by Kendra, and if it were disposed of during the tax year 2013–14 the disposal would result in a chargeable gain of £174,000.
- (2) Building society deposits of £387,000.
- (3) Investments in individual savings accounts (ISAs) valued at £39,000 and savings certificates from NS&I (National Savings and Investments) valued at £17,000.
- (4) A life assurance policy on her own life. The policy has an open market value of £210,000, and proceeds of £225,000 will be received following Kendra's death.

None of the above valuations are expected to change in the near future. The cost of Kendra's funeral will be £14,000.

Under the terms of her will, Kendra has left her entire estate to her children.

The nil rate band of Kendra's husband was fully utilised when he died ten years ago.

The nil rate band for the tax year 2006–07 is £285,000, and for the tax year 2012–13 it is £325,000.

For the tax year 2013–14, Kendra will pay income tax at the higher rate.

Required:

(a) Calculate the inheritance tax which would be payable if Kendra Older were to die on 31 March 2014. (10 marks)

(b) Advise Kendra Older why it would not be beneficial to make an immediate lifetime gift of the property valued at £970,000 to her children.

Notes:

1. Your answer should take account of both the capital gains tax and the inheritance tax implications of making the gift.
2. For this part of the question you should ignore the capital gains tax annual exempt amount and inheritance tax annual exemptions. (3 marks)

(c) Advise Kendra Older why it might be beneficial for inheritance tax purposes to change the terms of her will so that part of her estate was instead left to her grandchildren rather than her children. (2 marks)

(15 marks)

End of Question Paper