
Answers

Marks

Section C

Kioni

Company pension scheme

- | | | |
|-----|--|---|
| (1) | Kioni's income tax liability will remain unchanged at £31,050 because the pension contribution will be an exempt benefit. | ½ |
| (2) | The class 1 national insurance contributions (NICs) for both Kioni and Nikio Ltd will also remain unchanged at £4,664 and £5,364 respectively. | ½ |
| (3) | Nikio Ltd's revised corporation tax liability will be £15,200 ((100,000 – 20,000) at 19%). | ½ |

Tutorial note: The corporation tax liability could alternatively be calculated as 19,000 – (20,000 at 19%) = £15,200.

Personal pension contribution

(1)	Kioni's revised income tax liability will be £35,050:		
		£	
	Director's remuneration (47,500 + 20,000)	67,500	½
	Dividend income	68,000	½
		<hr/>	
	Personal allowance (working)	(4,750)	W
	Taxable income	<hr/> 130,750	
	Income tax		
	£		
	37,500 at 20%	7,500	½
	20,000 at 20%	4,000	½
	5,250 (67,500 – 4,750 – 37,500 – 20,000) at 40%	2,100	½
	2,000 at 0%	0	½
	66,000 (68,000 – 2,000) at 32.5%	21,450	½
		<hr/>	
	130,750		
	<hr/>		

		Marks
Income tax liability	35,050	
Working – Personal allowance		
	£	
Personal allowance	12,500	½
Reduction $((135,500 - 20,000 - 100,000)/2)$	(7,750)	1½
	4,750	
<i>Tutorial notes:</i>		
(1) <i>The personal pension contribution of £20,000 reduces Kioni's adjusted net income.</i>		
(2) <i>Personal pension contributions are made net of basic rate tax, so there will be a saving of £4,000 (20,000 at 20%) compared to making a gross contribution to a company pension scheme. This is because Kioni will only need to make a net contribution of £16,000 to a personal pension scheme. The saving will cancel out the increased income tax liability of £4,000 (35,050 – 31,050).</i>		
(2) Kioni's revised employee class 1 NICs will be £5,314:		
	£	
41,368 (50,000 – 8,632) at 12%	4,964	½
17,500 (67,500 – 50,000) at 2%	350	1
	5,314	
(3) Nikio Ltd's revised employer's class 1 NICs will be £8,124 (5,364 + 2,760 (20,000 at 13.8%)).		
(4) Nikio Ltd's revised corporation tax liability will be £14,676 ((100,000 – 20,000 – 2,760) at 19%).		
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Marks

Tutorial note: The bonus of £24,000 will be treated as received during 2019-20 because Jason will become entitled to it during this tax year. Similarly, the bonus of £22,000 will be treated as received during 2018-19.

Subsequent plc – Jason’s employment income 2019-20

	£	
Salary	205,000	½
Employer pension contributions	0	½
Car benefit (62,500 x 16%)	10,000	1
Living accommodation – Annual value (4,800 x 4/12)	1,600	1
– Additional benefit (working)	1,750	W
Beneficial loan (140,000 x 2.5% x 8/12)	2,333	1½
	220,683	
Employment income	220,683	

Additional income tax

Jason is an additional rate taxpayer under both employment alternatives, so he will have to pay £11,107 ((220,683 – 196,000) at 45%) more in income tax if he takes up the offer of employment with Subsequent plc. 1

Working – Living accommodation additional benefit

	£	
Value 6 April 2019	285,000	1
Improvements	0	½
Limit	(75,000)	½
	210,000	
	210,000	
Additional benefit 210,000 at 2.5% x 4/12	1,750	1

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Tutorial note: The living accommodation cost in excess of £75,000 so there is an additional benefit. Since the property was purchased by Subsequent plc more than six years before first being provided to Jason, the benefit is based on the market value when first provided. The improvements were incurred prior to then, so are not included as they are already reflected in the market value at the date first provided to Jason.

	Marks
(c)	
(1) Form P45 will show Jason's taxable earnings and income tax deducted up to 14 March 2019, together with his tax code at this date.	1
(2) Jason will give a copy of the form to Subsequent plc so that they can correctly calculate his PAYE for the remainder of 2018-19.	1
	2
Total marks	15

Lena Ltd, Mekong Ltd & Nile Ltd

(a) Lena Ltd

Capital allowances

		Main pool	Allowances	
	£	£	£	
Additions qualifying for the annual investment allowance (AIA)				
Lorries (768,000 – 128,000)		640,000		1
AIA – 100% (1,000,000 x 6/12)		(500,000)	500,000	1
		140,000		
WDA – 18% x 6/12		(12,600)	12,600	1
Addition qualifying for first year allowance (FYA)				
Motor car	54,000			1
FYA - 100%	(54,000)		54,000	½
	0			
WDV carried forward		127,400		½
		566,600		
Total allowances			566,600	5

Marks

Tutorial notes:

- (1) *The value added tax (VAT) included in the cost of the lorries is recoverable, so only the net of VAT expenditure qualifies for capital allowances. Given the private use by the managing director, the VAT included in the cost of the motor car is not recoverable.*
- (2) *The new motor car has CO₂ emissions up to 50 grams per kilometre, and therefore qualifies for the 100% first year allowance.*

(b) Mekong Ltd

(i) Residence status

- (1) From 1 April 2010 to 31 March 2014, Mekong Ltd would have been treated as not resident in the UK because the company's central management and control was not exercised in the UK (the company not being incorporated in the UK). ½
- (2) From 1 April 2014 to 31 March 2020, Mekong Ltd would have been treated as resident in the UK because the company's central management and control was exercised in the UK. ½

½

½

1

(ii) Group relief

	£	
Thames Ltd	72,600	1
Zambezi Ltd		
Period ended 31 May 2019	17,000	1
Period ended 31 May 2020 (106,800 x 10/12)	89,000	1
Yangtze Ltd	0	1
Group relief	178,600	

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(c) Nile Ltd

(i) Requirement to pay quarterly instalments

		Marks
(1) For the years ended 31 March 2019 and 2020, the profit threshold for establishing whether Nile Ltd is a large company was £750,000 (1,500,000/2).		1
(2) This threshold was exceeded for the year ended 31 March 2019 (744,000 + 14,000 = £758,000) and the year ended 31 March 2020 (878,000 + 13,000 = £891,000).		1
(3) However, for the year ended 31 March 2019, an exception applies because Nile Ltd was not a large company for the year ended 31 March 2018 (the company's profits were clearly less than the profit threshold of £1,500,000).		1
		3
(ii) Balancing payment		
	£	
Corporation tax liability (878,000 at 19%)	166,820	1
Instalment payments made	(101,200)	½
	65,620	
The due date is 14 July 2020.		½
		2
Total marks		15