

Applied Skills

# Taxation – United Kingdom (TX – UK)

September/December 2018 – Sample Questions



**Time allowed:** 3 hours 15 minutes

This question paper is divided into three sections:

Section A – ALL 15 questions are compulsory and **MUST** be attempted

Section B – ALL 15 questions are compulsory and **MUST** be attempted

Section C – ALL THREE questions are compulsory and **MUST** be attempted

Rates of tax and tables are printed on pages 2–4.

**Do NOT open this question paper until instructed by the supervisor.**

**Do NOT record any of your answers on the question paper.**

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

UK  
—  
TX

Think Ahead

**ACCA**

The Association of  
Chartered Certified  
Accountants

## 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 in Section C.

## 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 – £33,500	20%	7.5%
Higher rate	£33,501 to £150,000	40%	32.5%
Additional rate	£150,001 and over	45%	38.1%
Savings income nil rate band – Basic rate taxpayers			£1,000
– Higher rate taxpayers			£500
Dividend nil rate band			£5,000

A starting rate of 0% applies to savings income where it falls within the first £5,000 of taxable income.

### Personal allowance

Personal allowance	£11,500
Transferable amount	£1,150
Income limit	£100,000

### 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 CO<sub>2</sub> emissions is 95 grams per kilometre.

The percentage rates applying to petrol cars with CO<sub>2</sub> emissions up to this level are:

50 grams per kilometre or less	9%
51 grams to 75 grams per kilometre	13%
76 grams to 94 grams per kilometre	17%
95 grams per kilometre	18%

### **Car fuel benefit**

The base figure for calculating the car fuel benefit is £22,600.

### **Individual savings accounts (ISAs)**

The overall investment limit is £20,000.

### **Property income**

Basic rate restriction applies to 25% of finance costs.

### **Pension scheme limit**

Annual allowance	£40,000
Minimum allowance	£10,000
Income limit	£150,000

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**

<b>Plant and machinery</b>	
Main pool	18%
Special rate pool	8%

#### **Motor cars**

New cars with CO <sub>2</sub> emissions up to 75 grams per kilometre	100%
CO <sub>2</sub> emissions between 76 and 130 grams per kilometre	18%
CO <sub>2</sub> emissions over 130 grams per kilometre	8%

#### **Annual investment allowance**

Rate of allowance	100%
Expenditure limit	£200,000

### **Cash basis accounting**

Revenue limit	£150,000
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### **Cap on income tax reliefs**

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

### **Corporation tax**

Rate of tax – Financial year 2017	19%
– Financial year 2016	20%
– Financial year 2015	20%
Profit threshold	£1,500,000

### Value added tax (VAT)

Standard rate	20%
Registration limit	£85,000
Deregistration limit	£83,000

### Inheritance tax: tax rates

Nil rate band	£325,000
Residence nil rate band	£100,000
Rates of tax on excess – Lifetime rate	20%
– Death rate	40%

### 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

	Normal rates	Residential property
Lower rate	10%	18%
Higher rate	20%	28%
Annual exempt amount		£11,300
Entrepreneurs' relief – Lifetime limit		£10,000,000
– Rate of tax		10%

### National insurance contributions

Class 1	Employee	£1 – £8,164 per year	Nil
		£8,165 – £45,000 per year	12%
		£45,001 and above per year	2%
Class 1	Employer	£1 – £8,164 per year	Nil
		£8,165 and above per year	13.8%
		Employment allowance	£3,000
Class 1A		13.8%	
Class 2		£2.85 per week	
		Small profits threshold	£6,025
Class 4		£1 – £8,164 per year	Nil
		£8,165 – £45,000 per year	9%
		£45,001 and above per year	2%

### Rates of interest (assumed)

Official rate of interest	2.50%
Rate of interest on underpaid tax	2.75%
Rate of interest on overpaid tax	0.50%

**Section C – ALL THREE questions are compulsory and MUST be attempted**

Please write your answers to all parts of these questions on the lined pages within the Candidate Answer Booklet.

**31** You should assume that today's date is 15 March 2017.

On 6 April 2017, Kat will purchase a residential freehold property which she will let out. However, Kat is unsure whether to purchase the property personally or via a limited company. The limited company would be incorporated for the sole purpose of purchasing and letting out the property, and Kat would hold all of the shares in the company.

Regardless of whether the property is purchased personally or via a limited company:

- (1) The property will be let throughout the year ended 5 April 2018 at a monthly rent of £2,600.
- (2) The purchase of the property will be partly financed with a repayment mortgage. Mortgage interest of £12,000 will be paid during the year ended 5 April 2018.
- (3) The other expenditure on the property for the year ended 5 April 2018 will amount to £4,600, and this will all be allowable.
- (4) Kat will also have employment income of £60,000 for the tax year 2017–18.

If the property is purchased via a limited company, then the company's corporation tax liability for the year ended 5 April 2018 will be £2,774 and Kat will withdraw dividends from the company totalling £6,000 during the tax year 2017–18.

Kat will not have any other income for the tax year 2017–18.

**Required:**

**(a) Determine if there will be an overall saving of tax for the year ended 5 April 2018 if Kat purchases the property via a limited company rather than purchasing it personally.**

Notes:

1. Your answer should include a calculation of Kat's income tax liability if she purchases the property personally and if she purchases it via a limited company.
2. You should ignore national insurance contributions (NICs). (9 marks)

**(b) Explain ONE way in which the calculation of a future taxable gain on a property disposal made by the limited company would differ from the calculation of a taxable gain on a disposal made personally by Kat.** (1 mark)

**(10 marks)**

**32** Martin is employed by Global plc and he is also a member of a partnership. The following information is available in respect of the tax year 2017–18:

**Employment**

- (1) During the tax year 2017–18, Martin was paid a gross annual salary of £144,000 in respect of his employment with Global plc.
- (2) In addition to his salary, Martin was paid the following bonuses by Global plc:

Amount £	In respect of the six-month period ended	Date of payment	Date of entitlement
18,200	28 February 2017	31 March 2017	20 March 2017
21,400	31 August 2017	31 August 2017	20 September 2017
13,700	28 February 2018	30 April 2018	20 March 2018

- (3) During the tax year 2017–18, Global plc provided Martin with the following petrol powered motor cars:

Period provided	List price £	CO <sub>2</sub> emission rate
6 April to 31 December 2017	32,800	25 grams per kilometre
1 January to 5 April 2018	36,400	60 grams per kilometre

Martin was not provided with any fuel for private use.

- (4) On 6 April 2017, Global plc provided Martin with an interest free loan of £8,000 which he used to purchase a motor bike. No loan repayments were made during the year.
- (5) Throughout the tax year 2017–18, Global plc allowed Martin private use of a home entertainment system owned by the company. The home entertainment system cost Global plc £7,400 on 6 April 2017.
- (6) During the tax year 2017–18, Martin donated a total of £1,000 (gross) to charity under the payroll deduction scheme operated by Global plc.
- (7) Martin paid an annual professional subscription of £560 which is relevant to his employment with Global plc. Martin also paid an annual membership fee of £1,240 to a health club which he used to entertain Global plc’s clients. Global plc did not reimburse Martin for either of these costs.

**Partnership**

- (1) Martin has been in partnership with Norma and Oprah since 1 January 2005. The partnership’s trading profit for the year ended 31 December 2017 was £54,600.
- (2) Until 30 September 2017, profits were shared 40% to Martin, 30% to Norma and 30% to Oprah. Since 1 October 2017, profits have been shared equally.

**Other income**

- (1) During the tax year 2017–18, Martin rented out one furnished room of his main residence, receiving rent of £9,200 for the year. No additional expenditure was incurred as a result of the letting.
- (2) During the tax year 2017–18, Martin received dividends of £440.
- (3) On 30 November 2017, Martin received interest of £1,330 on the maturity of savings certificates from NS&I (National Savings and Investments).

**Self-assessment tax return**

Martin always files his self-assessment tax return online on 26 December, so his tax return for the tax year 2017–18 will be filed on 26 December 2018.

Because more than 80% of Martin’s tax liability is paid under PAYE, he is not required to make self-assessment payments on account.

**Required:**

- (a) Calculate Martin's taxable income for the tax year 2017–18.

Note: You should indicate by the use of zero (0) any items which are not taxable or deductible. (11 marks)

- (b) (i) Advise Martin of the deadline for making an amendment to his self-assessment tax return for the tax year 2017–18, and state how HM Revenue and Customs (HMRC) will calculate interest if such an amendment results in additional tax becoming payable. (2 marks)
- (ii) State the latest date by which HMRC will have to notify Martin if they intend to carry out a compliance check in respect of his self-assessment tax return for the tax year 2017–18, and (assuming the check is not made on a completely random basis) the possible reasons why such a check would be made.

(2 marks)

**(15 marks)**

- 33** You are a trainee chartered certified accountant assisting your manager with the tax affairs of three unconnected limited companies, Ash Ltd, Beech Ltd and Cedar Ltd.

#### Ash Ltd

Ash Ltd was incorporated in the UK on 1 December 2015 and immediately opened a non-interest bearing bank account. The company commenced trading on 1 February 2016, preparing its first accounts for the 14-month period ended 31 March 2017. Accounts were then prepared for the year ended 31 March 2018.

At the date of incorporation, all three of Ash Ltd's directors (who each own one-third of the company's ordinary share capital) were based in the UK. However, on 1 October 2017, two of the directors moved overseas. The directors have always held Ash Ltd's board meetings in the UK, and will continue to do so despite two of them moving overseas.

#### Beech Ltd

Beech Ltd's summarised statement of profit or loss for the year ended 31 January 2018 is as follows:

	Note	£
Gross profit		565,800
Operating expenses		
Depreciation		(14,700)
Gifts and donations	1	(4,600)
Impairment loss	2	(3,700)
Leasing costs	3	(12,600)
Other expenses	4	(217,700)
Finance costs		
Interest payable	5	(7,000)
Profit before taxation		<u>305,500</u>

#### Note 1 – Gifts and donations

Gifts and donations of £4,600 comprise:

	£
Gifts to customers (pens costing £70 each and displaying Beech Ltd's name)	3,500
Qualifying charitable donations	<u>1,100</u>
	<u>4,600</u>

#### Note 2 – Impairment loss

On 31 January 2018, Beech Ltd wrote off an impairment loss of £3,700 relating to a trade debt. This was in respect of an invoice which had been due for payment on 15 October 2017.

#### Note 3 – Leasing costs

The leasing costs of £12,600 are in respect of four motor car leases which commenced on 1 February 2017. Each of the four leased motor cars has CO<sub>2</sub> emissions of 160 grams per kilometre.

#### Note 4 – Other expenses

The other expenses of £217,700 include a fine of £6,400 for a breach of data protection law, and legal fees of £5,700 in connection with the renewal of a 15-year property lease. The remaining expenses are all fully allowable.

#### Note 5 – Interest payable

The interest payable of £7,000 is in respect of the company's 4% loan notes which were issued on 1 July 2017. Interest of £6,000 was paid on 31 December 2017, with an accrual of £1,000 provided for at 31 January 2018. The loan notes were issued in order to finance the company's trading activities.

#### Capital allowances

No capital allowances are available for the year ended 31 January 2018.

#### Cedar Ltd

Cedar Ltd is a 100% subsidiary company of Timber Ltd. The following information is available in respect of the two companies for the year ended 31 March 2018:

- (1) For the year ended 31 March 2018, Cedar Ltd made a trading loss of £19,700.

- (2) On 28 December 2017, Cedar Ltd sold its entire shareholding of 25,000 £1 ordinary shares in Forest plc for £6.00 per share. Cedar Ltd had originally purchased 20,000 shares in Forest plc on 1 July 2010 for £24,800. On 20 July 2010, Forest plc made a 1 for 4 rights issue. Cedar Ltd took up its allocation under the rights issue in full, paying £1.15 for each new share issued. The indexation factor from July 2010 to December 2017 is 0.244.
- (3) For the year ended 31 March 2018, Timber Ltd made:

	<b>£</b>
Trading loss	20,800
Capital loss	8,800

There is no possibility of Cedar Ltd or Timber Ltd offsetting their trading losses against prior year profits. The group has a policy of utilising losses at the earliest opportunity.

**Required:**

- (a) (i) **Identify Ash Ltd's accounting periods throughout the period 1 December 2015 to 31 March 2018.**  
(2 marks)
- (ii) **Explain Ash Ltd's residence status throughout the period 1 December 2015 to 31 March 2018.**  
(2 marks)
- (b) **Calculate Beech Ltd's corporation tax liability for the year ended 31 January 2018.**  
Note: Your computation should commence with the profit before taxation figure of £305,500, and should also list all of the items referred to in notes (1) to (5), indicating by the use of zero (0) any items which do not require adjustment.  
(6 marks)
- (c) **On the basis that all available claims and elections are made, calculate Cedar Ltd's taxable total profits for the year ended 31 March 2018.**  
(5 marks)

**(15 marks)**

**End of Question Paper**