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.
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

<table>
<thead>
<tr>
<th>Rate Category</th>
<th>Normal Rates</th>
<th>Dividend Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic rate</td>
<td>£1 – £33,500</td>
<td>20%</td>
</tr>
<tr>
<td>Higher rate</td>
<td>£33,501 to £150,000</td>
<td>40%</td>
</tr>
<tr>
<td>Additional rate</td>
<td>£150,001 and over</td>
<td>45%</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Days in UK</th>
<th>Previously resident</th>
<th>Not previously resident</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 16</td>
<td>Automatically not resident</td>
<td>Automatically not resident</td>
</tr>
<tr>
<td>16 to 45</td>
<td>Resident if 4 UK ties (or more)</td>
<td>Automatically not resident</td>
</tr>
<tr>
<td>46 to 90</td>
<td>Resident if 3 UK ties (or more)</td>
<td>Resident if 4 UK ties</td>
</tr>
<tr>
<td>91 to 120</td>
<td>Resident if 2 UK ties (or more)</td>
<td>Resident if 3 UK ties (or more)</td>
</tr>
<tr>
<td>121 to 182</td>
<td>Resident if 1 UK tie (or more)</td>
<td>Resident if 2 UK ties (or more)</td>
</tr>
<tr>
<td>183 or more</td>
<td>Automatically resident</td>
<td>Automatically resident</td>
</tr>
</tbody>
</table>

### 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:

- 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
Plant and machinery
Main pool 18%
Special rate pool 8%
Motor cars
New cars with CO$_2$ emissions up to 75 grams per kilometre 100%
CO$_2$ emissions between 76 and 130 grams per kilometre 18%
CO$_2$ 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

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

<table>
<thead>
<tr>
<th>Years before death</th>
<th>Percentage reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Over 3 but less than 4 years</td>
<td>20%</td>
</tr>
<tr>
<td>Over 4 but less than 5 years</td>
<td>40%</td>
</tr>
<tr>
<td>Over 5 but less than 6 years</td>
<td>60%</td>
</tr>
<tr>
<td>Over 6 but less than 7 years</td>
<td>80%</td>
</tr>
</tbody>
</table>

Capital gains tax

<table>
<thead>
<tr>
<th></th>
<th>Normal rates</th>
<th>Residential property</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower rate</td>
<td>10%</td>
<td>18%</td>
</tr>
<tr>
<td>Higher rate</td>
<td>20%</td>
<td>28%</td>
</tr>
<tr>
<td>Annual exempt amount</td>
<td></td>
<td>£11,300</td>
</tr>
<tr>
<td>Entrepreneurs’ relief –</td>
<td></td>
<td>£10,000,000</td>
</tr>
<tr>
<td>Lifetime limit</td>
<td></td>
<td>10%</td>
</tr>
</tbody>
</table>

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: 2·5%
- Rate of interest on underpaid tax: 2·75%
- Rate of interest on overpaid tax: 0·50%
Kaya is the managing director of, and 100% shareholder in, Hopi Ltd. Hopi Ltd has no other employees.

For the year ended 5 April 2018, Hopi Ltd’s tax adjusted trading profit, after taking account of director’s remuneration and employer’s class 1 national insurance contributions (NICs), is forecast to be £80,000. Hopi Ltd has already paid Kaya gross director’s remuneration of £30,000 and dividends of £45,000 for the tax year 2017–18. Kaya does not have any other income. Based on these figures, the tax and NICs for Kaya and Hopi Ltd for the year ended 5 April 2018 will be:

<table>
<thead>
<tr>
<th></th>
<th>£</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kaya</td>
<td></td>
</tr>
<tr>
<td>Income tax</td>
<td>14,200</td>
</tr>
<tr>
<td>Employee class 1 NICs</td>
<td>2,620</td>
</tr>
<tr>
<td>Hopi Ltd</td>
<td></td>
</tr>
<tr>
<td>Employer class 1 NICs</td>
<td>3,013</td>
</tr>
<tr>
<td>Corporation tax</td>
<td>15,200</td>
</tr>
</tbody>
</table>

However, on 31 March 2018, Kaya is planning to pay herself a bonus of £25,000, but is unsure whether to take this as additional director’s remuneration (the gross remuneration will be £25,000) or as an additional dividend.

**Required:**

Calculate the revised tax and NICs for Kaya and Hopi Ltd for the year ended 5 April 2018 if, on 31 March 2018, Kaya pays herself the bonus of £25,000 (1) as additional director’s remuneration or (2) as an additional dividend.

**Notes:**

1. You are expected to calculate the revised income tax liability and NICs for Kaya and the revised corporation tax liability and NICs for Hopi Ltd under each of options (1) and (2).
2. You should assume that the rate of corporation tax remains unchanged.

(10 marks)
Up to and including the tax year 2014–15, Danh was always automatically treated as not resident in the UK, spending fewer than 46 days in the UK each year. Danh knows that for the tax year 2017–18, he will automatically be treated as resident in the UK, but is unsure of his residence status for the tax years 2015–16 and 2016–17. For these two tax years, Danh was neither automatically not resident in the UK nor automatically resident. For both of these tax years, Danh spent 100 days in the UK, with the remainder of each tax year spent in the same overseas country. Throughout both tax years, Danh had a property in the UK and stayed there on the 100 days which he spent in the UK. Danh also did substantive work in the UK during both tax years. He does not have any close family in the UK.

On 6 August 2017, Danh commenced self-employment as a sole trader. In addition, on 6 September 2017, Danh joined an existing partnership run by Ebele and Fai. The following information is available for the tax year 2017–18:

**Self-employment**

1. Danh’s statement of profit or loss for the eight-month period ended 5 April 2018 is:

<table>
<thead>
<tr>
<th>Note</th>
<th>£</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td>96,400</td>
</tr>
<tr>
<td>Expenses</td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>(2,300)</td>
</tr>
<tr>
<td>Motor expenses</td>
<td>2 (3,300)</td>
</tr>
<tr>
<td>Professional fees</td>
<td>3 (1,800)</td>
</tr>
<tr>
<td>Other expenses (all allowable)</td>
<td>(18,800)</td>
</tr>
</tbody>
</table>

Net profit 70,200

2. During the eight-month period ended 5 April 2018, Danh drove a total of 12,000 miles, of which 4,000 were for private journeys.

3. The figure for professional fees consists of £340 for accountancy and £1,460 for legal fees in connection with the grant of a new five-year lease for business premises.

4. Danh runs his business using one of the six rooms in his private house as an office. The total running costs of the house for the eight-month period ended 5 April 2018 were £4,200. No deduction has been made for the cost of using the office in calculating the net profit of £70,200.

5. The only item of plant and machinery owned by Danh is his motor car. This was purchased on 6 August 2017 for £14,800, and has a CO₂ emission rate of 110 grams per kilometre.

**Partnership loss**

1. For the year ended 5 April 2018, the partnership made a tax-adjusted trading loss of £12,600. Until 5 September 2017, profits and losses were shared 60% to Ebele and 40% to Fai. Since 6 September 2017, profits and losses have been shared 20% to Danh, 50% to Ebele and 30% to Fai.

2. Danh will claim to relieve his share of the partnership’s loss against his total income for the tax year 2017–18.

3. During the tax year 2017–18, Danh paid interest of £875 (gross) on a personal loan taken out to purchase his share in the partnership.

**Property income**

1. On 6 April 2017, Danh purchased a freehold house which was then let out. The total amount of rent receivable during the tax year 2017–18 was £14,400.

2. Danh partly financed the purchase of the property with a repayment mortgage, paying mortgage interest of £5,000 during the tax year 2017–18.

3. The other expenditure on the property for the tax year 2017–18 amounted to £1,480, and this is all allowable.
Required:

(a) Explain whether Danh was treated as resident or not resident in the UK for each of the tax years 2015–16 and 2016–17. 

(b) Calculate Danh’s income tax liability for the tax year 2017–18. 

Note: When calculating Danh’s trading profit from self-employment for the eight-month period ended 5 April 2018, your computation should commence with the net profit figure of £70,200, indicating by the use of zero (0) any items which do not require adjustment.
Solo Ltd’s results for the previous two periods of trading are:

<table>
<thead>
<tr>
<th></th>
<th>Year ended 31 December 2016</th>
<th>Three-month period ended 31 March 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trading profit</td>
<td>£35,900</td>
<td>£12,300</td>
</tr>
<tr>
<td>Property business income</td>
<td>£12,100</td>
<td>£4,200</td>
</tr>
<tr>
<td>Chargeable gains/(capital losses)</td>
<td>(£3,300)</td>
<td>(£2,100)</td>
</tr>
<tr>
<td>Qualifying charitable donations</td>
<td>(£1,200)</td>
<td>(£1,600)</td>
</tr>
</tbody>
</table>

The following information is available in respect of the year ended 31 March 2018:

**Trading loss**

The tax-adjusted trading loss based on the draft statement of profit or loss for the year ended 31 March 2018 is £151,300. This figure is **before** making any adjustments required for:

1. A premium which was paid to acquire a leasehold office building on an eight-year lease.
2. Capital allowances.

**Premium paid to acquire leasehold office building**

On 1 April 2017, Solo Ltd acquired a leasehold office building, paying a premium of £20,000 for the grant of an eight-year lease. The office building was used for business purposes by Solo Ltd throughout the year ended 31 March 2018.

**Plant and machinery**

The tax written down value of the plant and machinery main pool as at 1 April 2017 was £0. During the year ended 31 March 2018, Solo Ltd sold equipment for £4,300. The equipment was originally purchased during the year ended 31 March 2013 for £22,400, with this expenditure qualifying for the 100% annual investment allowance.

**Property business income**

Solo Ltd lets out a warehouse which is surplus to requirements. The building was empty from 1 April to 31 July 2017, but was let from 1 August 2017 onwards. The following income and expenditure was received or incurred during the year ended 31 March 2018:

<table>
<thead>
<tr>
<th>Date received/paid</th>
<th>Description</th>
<th>£</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 April 2017</td>
<td>Insurance for the year ended 31 March 2018</td>
<td>(£920)</td>
</tr>
<tr>
<td>1 August 2017</td>
<td>Rent for the six months ended 31 January 2018</td>
<td>£7,800</td>
</tr>
<tr>
<td>1 August 2017</td>
<td>Security deposit equal to two months’ rent</td>
<td>£2,600</td>
</tr>
<tr>
<td>1 March 2018</td>
<td>Rent for the six months ended 31 July 2018</td>
<td>£7,800</td>
</tr>
</tbody>
</table>

**Disposal of shareholding in Multiple plc**

On 12 December 2017, Solo Ltd sold 6,500 £1 ordinary shares in Multiple plc for £31,200. Solo Ltd had originally purchased 20,000 shares (less than a 1% shareholding) in Multiple plc on 18 June 2006 for £27,000, and purchased a further 1,000 shares on 8 December 2017 for £4,600. Retail price indices (RPIs) are:

- June 2006: 198.5
- December 2017: 278.1
Required:

(a) Calculate Solo Ltd’s revised tax-adjusted trading loss for the year ended 31 March 2018.

Note: You should assume that the company claims the maximum available capital allowances.  
(3 marks)

(b) On the basis that Solo Ltd claims relief for its trading loss against its total profits for the year ended 31 March 2018, prepare a corporation tax computation for this year showing taxable total profits.  
(8 marks)

(c) On the basis that Solo Ltd claims relief for the remainder of its trading loss as early as possible, calculate the company’s taxable total profits for the year ended 31 December 2016 and the three-month period ended 31 March 2017.  
(4 marks)

(15 marks)