Answers

1 (a) Sam White – Trading profit for the year ended 5 April 2008

	£	£
Net profit	50,000	
Depreciation	7,600	
Motor expenses (8,800 x 20%)	1,760	
Patent royalties	–	
Personal capital gains tax advice	320	
Gifts to customers (560 + 420)	980	
Use of office (5,120 x 1/8)		640
Private telephone (1,600 x 25%)		400
Own consumption	1,480	
Capital allowances		6,100
	62,140	7,140
	(7,140)	
Trading profit	55,000	

Working – Capital allowances

	Pool	Motor car		Allowances
	£	£		£
WDV brought forward	14,800	20,200		
WDA – 25%	(3,700)			3,700
WDA – restricted		(3,000)	x 80%	2,400
WDV carried forward	11,100	17,200		6,100

(1) Of the 25,000 miles driven by Sam during the year ended 5 April 2008, 20,000 (5,000 + 15,000 (25,000 – 5,000 = 20,000 x 75%)) were for business journeys. The business proportion is therefore 80% (20,000/25,000 x 100).

(2) Patent royalties are allowed as a deduction when calculating the trading profit, so no adjustment is required.

(3) Gifts to customers are an allowable deduction if they cost less than £50 per recipient per year, are not of food, drink, tobacco or vouchers for exchangeable goods and carry a conspicuous advertisement for the company making the gift.

(b) Sam White – Income tax computation 2007–08

	£
Trading profit	55,000
Building society interest (1,200 x 100/80 = 1,500/2)	750
	55,750
Personal allowance	(5,225)
Taxable income	50,525
Income tax	
2,230 at 10%	223
32,370 at 22%	7,121
15,925 (50,525 – 2,230 – 32,370) at 40%	6,370
50,525	
Income tax liability	13,714

Kim White – Income tax computation 2007–08

	£	£
Employment income		
Salary	21,600	
Beneficial loan	625	
	22,225	
Expense claim	(4,625)	
		17,600
Building society interest		750
		18,350
Interest paid		(140)
		18,210
Personal allowance		(5,225)
Taxable income		12,985
Income tax		
2,230 at 10%		223
10,005 (12,985 – 2,230 – 750) at 22%		2,201
750 at 20%		150
12,985		
Income tax liability		2,574

(1) The taxable benefit from the beneficial loan is £625 (12,000 at 6·25% x 10/12).

(2) Ordinary commuting (travel between home and the permanent workplace) does not qualify for relief. The travel to a temporary workplace qualifies as it is for a period lasting less than 24 months.

(3) Kim can therefore make an expense claim based on 12,500 (11,200 + 1,300) miles as follows:

	£
10,000 miles at 40p	4,000
2,500 miles at 25p	625
	4,625

(4) The loan interest paid of £140 is eligible for relief since the loan was used by Kim to finance expenditure for a relevant purpose. It is paid gross.

(c) Individual savings accounts

(1) Both Sam and Kim can invest a maximum of £3,000 each tax year into either a Mini cash ISA or the cash component of a Maxi ISA.

(2) Interest received from ISAs is exempt from income tax, so Sam will save tax at the rate of 40% whilst Kim will save tax at the rate of 20% on gross interest of £180 (1,500 x 3,000/25,000).

Transfer to Kim's sole name

(1) Sam pays income tax at the rate of 40%, whilst Kim's basic rate tax band is not fully utilised.

(2) Transferring the building society deposit account into Kim's sole name would therefore save tax of £150 (750 x 20% (40% – 20%)).

2 (a) (i) (1) An accounting period will normally start immediately after the end of the preceding accounting period.

(2) An accounting period will also start when a company commences to trade or when its profits otherwise become liable to corporation tax.

(ii) Wireless Ltd – Profits chargeable to corporation tax for the period ended 31 March 2008

	£	£
Trading profit		68,400
Director's remuneration (23,000 + 2,275)	25,275	
Capital allowances – P & M (working 1)	10,475	
– IBA (working 2)	1,960	
		(37,710)
		30,690
Loan interest		1,110
Overseas income		10,000
		41,800
Gift aid donation		(1,800)
Profits chargeable to corporation tax		40,000

(1) The director's remuneration can be deducted as it was paid within nine months of the end of the period of account.

(2) The employer's Class 1 NIC will be £2,275 (23,000 – 5,225 = 17,775 at 12·8%).

(3) Relief for underlying tax is given where the UK holding company owns at least 10% of an overseas company's voting power.

(4) The dividend from the overseas subsidiary must therefore be grossed up for both withholding tax and underlying tax as follows:

	£
Net dividend	6,750
Withholding tax (6,750 x 10/90)	750
	7,500
Underlying tax (7,500 x 25/75)	2,500
Overseas income	10,000

Working 1 – Plant and machinery

	£	Pool £	Allowances £
Additions		10,600	
WDA – 25% x 6/12		(1,325)	1,325
		9,275	
Additions qualifying for FYA			
Office equipment	3,400		
Machinery	10,200		
Alterations	4,700		
	18,300		
FYA 50%	(9,150)		9,150
		9,150	
WDV carried forward		18,425	
Total allowances			10,475

(1) WDAs are restricted to 6/12 because Wireless Ltd's accounting period is six months long.

(2) The private use of the motor car is irrelevant, since such usage will be assessed on the employee as a benefit.

(3) The office equipment purchased on 20 September 2007 is pre-trading and is treated as incurred on 1 October 2007.

Working 2 – Industrial buildings allowance

	£
Site preparation	8,000
Canteen for employees	22,000
Factory	68,000
Eligible expenditure	98,000

(1) The accounting period is six months long, so the WDA is £1,960 (98,000 at 4% = 3,920 x 6/12).

(2) The cost of the land does not qualify.

(3) The general offices do not qualify as they cost more than 25% of the total potentially qualifying cost (200,000 – 60,000 = 140,000 x 25% = £35,000).

Note: in practice some of the site preparation costs may be treated as relating to the general offices and would therefore not qualify. This approach would be awarded equivalent marks.

(b) (i) (1) Wireless Ltd would have been liable to compulsory VAT registration when its taxable supplies during any 12-month period exceeded £64,000.

(2) This happened on 28 February 2008 when taxable supplies amounted to £87,100 (9,700 + 18,200 + 21,100 + 14,800 + 23,300).

(3) Wireless Ltd would have had to notify HMRC by 30 March 2008, being 30 days after the end of the period.

(4) The company will have been registered from 1 April 2008 or from an agreed earlier date.

(ii) Input VAT on goods purchased prior to registration

(1) The goods must have been acquired for business purposes and not be sold or consumed prior to registration.

(2) The goods were acquired in the three years prior to VAT registration.

Input VAT on services supplied prior to registration

(1) The services must have been supplied for business purposes.

(2) The services were supplied in the six months prior to VAT registration.

(iii) (1) Wireless Ltd's sales are all to VAT registered businesses, so output VAT can be passed on to customers.

(2) The company's revenue would therefore not have altered if it had registered for VAT on 1 October 2007.

(3) However, registering for VAT on 1 October 2007 would have allowed all input VAT incurred from that date to be recovered.

(iv) The following information is required:

(1) An identifying number (invoice number).
(2) Wireless Ltd's VAT registration number.
(3) The name and address of the customer.
(4) The type of supply.
(5) The rate of VAT for each supply.
(6) The quantity and a description of the goods supplied.

3 (a) (1) A person will be resident in the UK during a tax year if they are present in the UK for 183 days or more.

(2) A person will also be treated as resident if they visit the UK regularly, with visits averaging 91 days or more a tax year over a period of four or more consecutive tax years.

(3) Ordinary residence is not precisely defined, but a person will normally be ordinarily resident in the UK if this is where they habitually reside.

(4) A person is liable to capital gains tax (CGT) on the disposal of assets during any tax year in which they are either resident or ordinarily resident in the UK.

(b) Wilson Biazma – Chargeable gains 2007–08

	Gain	Taper	Tapered gain
	£	%	£
Office building	104,560	75%	26,140
Goodwill	36,000	50%	18,000
Ordinary shares in Gandua Ltd	8,000	100%	8,000
Antique vase	–	–	–
Land	17,000	70%	11,900
Chargeable gains			64,040

Office building

	£
Disposal proceeds	246,000
Cost	(104,000)
	142,000
Indexation 104,000 x 0·360	(37,440)
	104,560

(1) Rollover relief is not available because the amount not reinvested of £110,000 (246,000 – 136,000) is greater than the capital gain of £104,560.

(2) The office building is a business asset and taper relief is based on nine complete years of ownership.

Goodwill

	£
Disposal proceeds	120,000
Cost	Nil
	120,000
Rollover relief (120,000 – 36,000)	(84,000)
	36,000

(1) The proportion of the gain relating to the cash consideration cannot be rolled over, so £36,000 (120,000 x 60,000/200,000) of the gain is immediately chargeable to CGT.

(2) The goodwill is a business asset and taper relief is based on one complete year of ownership.

Ordinary shares in Gandua Ltd

	£
Deemed proceeds	160,000
Cost	(112,000)
	48,000
Gift relief	(40,000)
Chargeable gain	8,000

(1) Gift relief is restricted to £40,000 (48,000 x 150,000/180,000), being the proportion of chargeable assets to chargeable business assets.

Antique vase

(1) The insurance proceeds of £68,000 received by Wilson have been fully reinvested in a replacement antique vase.

(2) The disposal is therefore on a no gain no loss basis, with the capital gain of £19,000 (insurance proceeds of £68,000 less original cost of £49,000) being set against the cost of the replacement antique vase.

Land

	£
Disposal proceeds	85,000
Cost	(68,000)
	17,000

(1) The cost relating to the ten acres of land sold is £68,000 (120,000 x 85,000/150,000 (85,000 + 65,000)).

(2) The land is a non-business asset and taper relief is based on eight complete years of ownership.

4 (a)

Due date	Tax year	Payment	£
31 July 2007	2006–07	Second payment on account	2,240
31 January 2008	2006–07	Balancing payment	5,980
31 January 2008	2007–08	First payment on account	1,860
31 July 2008	2007–08	Second payment on account	1,860
31 January 2009	2007–08	Balancing payment	Nil
31 January 2009	2008–09	First payment on account	1,860

(1) The second payment on account for 2006–07 is based on Pi's income tax and Class 4 NIC liability for 2005–06. It is therefore £2,240 (3,240 + 1,240 = 4,480 x 50%).

(2) The balancing payment for 2006–07 is £5,980 (4,100 + 1,480 + 4,880 = 10,460 less the payments on account of 4,480 (2,240 x 2)).

(3) Pi will make a claim to reduce her total payments on account for 2007–08 to £3,720 (2,730 + 990), so each payment will be £1,860 (3,720 x 50%).

(4) The balancing payment for 2007–08 is £Nil (3,720 less the payments on account of 3,720 (1,860 x 2)).

(5) The first payment on account for 2008–09 is based on Pi's income tax and Class 4 NIC liability for 2007–08. It is therefore £1,860 (2,730 + 990 = 3,720 x 50%).

(b) (1) If Pi's payments on account for 2007–08 were reduced to nil, then she would be charged interest on the payments due of £1,860 from the relevant due date to the date of payment.

(2) A penalty of up to £3,720 will be charged if the claim to reduce the payments on account to nil was made fraudulently or negligently.

(c) (1) Unless the return is issued late, the latest date that Pi can submit a paper based self-assessment tax return for 2007–08 is 31 October 2008.

(2) If Pi completes a paper based tax return by 31 October 2008 then HMRC will prepare a self-assessment tax computation on her behalf.

(3) Alternatively, Pi has until 31 January 2009 to file her self-assessment tax return for 2007–08 online. A self-assessment tax computation is then automatically provided as part of the filing process.

(d) (1) If HMRC intend to enquire into Pi's 2007–08 tax return they will have to notify her within twelve months of the date that they receive the return.

(2) HMRC have the right to enquire into the completeness and accuracy of any return and such an enquiry may be made on a completely random basis.

(3) However, enquiries are generally made because of a suspicion that income has been undeclared or because deductions have been incorrectly claimed.

5 Do-Not-Panic Ltd – Corporation tax liabilities for the fifteen-month period ended 31 March 2008

	Year ended 31 December 2007	Period ended 31 March 2008
	£	£
Trading profit	252,000	63,000
Capital allowances	(12,000)	(750)
	240,000	62,250
Capital gains (42,000 – 4,250)	–	37,750
Profits chargeable to corporation tax	240,000	100,000
Franked investment income	–	25,000
Profit	240,000	125,000
Corporation tax		
FY 2006 240,000 x 3/12 = 60,000 at 19%	11,400	
FY 2007 240,000 x 9/12 = 180,000 at 20%	36,000	
FY 2007 100,000 at 30%		30,000
Marginal relief		
1/40 (375,000 – 125,000) x 100,000/125,000		(5,000)
	47,400	25,000
Due dates	1 October 2008	1 January 2009

(1) Trading profits are allocated on a time basis: £252,000 (315,000 x 12/15) to the year ended 31 December 2007 and £63,000 (315,000 x 3/15) to the period ended 31 March 2008.

(2) Separate capital allowance computations are prepared for each accounting period as follows:

Year ended 31 December 2007

		Pool	Allowances
	£	£	£
Equipment	24,000		
FYA – 50%	(12,000)		12,000
		12,000	
WDV carried forward		12,000	
Period ended 31 March 2008			
WDA – 25% x 3/12		(750)	750
WDV carried forward		11,250	

(3) The capital loss of £4,250 for the year ended 31 December 2007 is carried forward.

(4) The profits chargeable to corporation tax for the year ended 31 December 2007 must be apportioned between the financial years 2006 and 2007 because of the change in the small company rate of tax.

(5) The period ended 31 March 2008 is three months long so the relevant lower and upper limits are £75,000 (300,000 x 3/12) and £375,000 (1,500,000 x 3/12) respectively.

				Marks
1	(a)	Net profit	$\frac{1}{2}$	
		Depreciation	$\frac{1}{2}$	
		Motor expenses	$1\frac{1}{2}$	
		Patent royalties	1	
		Professional fees	1	
		Gifts to customers	1	
		Use of office	1	
		Private telephone	1	
		Own consumption	1	
		Capital allowances – Pool	1	
		– Motor car	$1\frac{1}{2}$	
				11
	(b)	**Sam White**		
		Trading profit	$\frac{1}{2}$	
		Building society interest	1	
		Personal allowance	$\frac{1}{2}$	
		Income tax	1	
		Kim White		
		Salary	$\frac{1}{2}$	
		Beneficial loan	1	
		Expense claim	2	
		Building society interest	$\frac{1}{2}$	
		Loan interest	1	
		Personal allowance	$\frac{1}{2}$	
		Income tax	$1\frac{1}{2}$	
				10
	(c)	**Individual savings accounts**		
		Limit	1	
		Tax saving	1	
				2
		Transfer to Kim's sole name		
		Tax rates	1	
		Tax saving	1	
				2
				25

				Marks	
2	(a)	(i)	End of preceding accounting period	1	
			Commencement of trading	1	
					2
		(ii)	Trading profit	$^1/_2$	
			Director's remuneration	1	
			Employer's Class 1 NIC	1	
			P & M – Pool	$1^1/_2$	
			– FYA	$2^1/_2$	
			IBA – Land	$^1/_2$	
			– General offices	1	
			– Eligible expenditure	1	
			– Allowance	$1^1/_2$	
			Loan interest	$^1/_2$	
			Overseas income	2	
			Gift aid donation	1	
					14
	(b)	(i)	Registration limit	1	
			February 2008	1	
			Notification	1	
			Date of registration	1	
					4
		(ii)	**Goods**		
			Business purposes/Not sold or consumed	$1^1/_2$	
			Three year limit	1	
			Services		
			Business purposes	$^1/_2$	
			Six month limit	1	
					4
		(iii)	Output VAT	1	
			Revenue	1	
			Input VAT	1	
					3
		(iv)	An identifying number	$^1/_2$	
			Wireless Ltd's VAT registration number	$^1/_2$	
			The name and address of the customer	$^1/_2$	
			The type of supply	$^1/_2$	
			The rate of VAT for each supply	$^1/_2$	
			Quantity and description	$^1/_2$	
					3
					30

				Marks
3	(a)	183 day rule	1	
		91 day rule	1	
		Ordinary residence	1	
		Liability to CGT	1	
				4
	(b)	**Office building**		
		Proceeds	$^1/_2$	
		Cost	$^1/_2$	
		Indexation	1	
		Rollover relief	$1^1/_2$	
		Taper relief	1	
		Goodwill		
		Proceeds	$^1/_2$	
		Cost	$^1/_2$	
		Rollover relief	$1^1/_2$	
		Taper relief	1	
		Ordinary shares in Gandua Ltd		
		Proceeds	$^1/_2$	
		Cost	$^1/_2$	
		Gift relief	$1^1/_2$	
		Antique vase		
		Proceeds fully reinvested	1	
		No gain no loss	1	
		Land		
		Proceeds	$^1/_2$	
		Cost	2	
		Taper relief	1	
				16
				20
4	(a)	Second payment on account for 2006–07	$1^1/_2$	
		Balancing payment for 2006–07	2	
		Claim to reduce payments on account	1	
		Payments on account for 2007–08	1	
		Balancing payment for 2007–08	$^1/_2$	
		First payment on account for 2008–09	1	
				7
	(b)	Interest	1	
		Penalty	1	
				2
	(c)	Paper based return	2	
		Return filed online	1	
				3
	(d)	Notification date	1	
		Random basis	1	
		Income/Deductions	1	
				3
				15

		Marks
5	Trading profit	1
	Capital allowances – Year ended 31 December 2007	1
	– Period ended 31 March 2008	1
	Capital gains	$1^1/_2$
	Franked investment income	1
	Corporation tax – Year ended 31 December 2007	$1^1/_2$
	– Period ended 31 March 2008	2
	Due dates	1
		10