Fundamentals Level – Skills Module

Taxation (United Kingdom)

Monday 3 December 2007

Paper F6 (UK)

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 2–4.

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

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.**

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

Income tax

		%
Starting rate	£1 – £2,150	10
Basic rate	£2,151 – £33,300	22
Higher rate	£33,301 and above	40

Personal allowance

Personal allowance	Standard	£5,035
	65–74	£7,280
	75 and over	£7,420
Income limit for age related allowances		£20,100

Car benefit percentage

The base level of CO_2 emissions is 140 grams per kilometre.

Car fuel benefit

The base figure for calculating the car fuel benefit is £14,400.

Pension scheme limits

Annual allowance £215,000

The maximum contribution that can qualify for tax relief without any earnings is £3,600.

Capital allowances

	%
Plant and machinery	
Writing-down allowance	25
First-year allowance – Plant and machinery	40
– Low emission motor cars (CO_2 emissions of less than 120 grams per kilometre)	100

For small businesses only: the rate of plant and machinery first-year allowance is increased to 50% for the period from 1 April 2006 to 31 March 2007 (6 April 2006 to 5 April 2007 for unincorporated businesses).

	%
Long-life assets	
Writing-down allowance	6
Industrial buildings	
Writing-down allowance	4

Corporation tax

Financial year	2004	2005	2006
Small companies rate	19%	19%	19%
Full rate	30%	30%	30%
Lower limit	300,000	300,000	300,000
Upper limit	1,500,000	1,500,000	1,500,000
Marginal relief fraction	11/400	11/400	11/400

Marginal relief

(M – P) x I/P x Marginal relief fraction

Value added tax

	£
Registration limit	61,000
Deregistration limit	59,000

Capital gains tax: Annual exemption

Individuals	£8,800

Capital gains tax: Taper relief

Complete years after 5 April 1998 for which asset held	Gains on business assets	Gains on non-business assets
1	50%	100%
2	25%	100%
3	25%	95%
4	25%	90%
5	25%	85%
6	25%	80%
7	25%	75%
8	25%	70%
9	25%	65%
10	25%	60%

National insurance contributions
(Not contracted out rates)

		%
Class 1 Employee	£1 – £5,035 per year	Nil
	£5,036 – £33,540 per year	11·0
	£33,541 and above per year	1·0
Class 1 Employer	£1 – £5,035 per year	Nil
	£5,036 and above per year	12·8
Class 1A		12·8
Class 2	£2·10 per week	
Class 4	£1 – £5,035 per year	Nil
	£5,036 – £33,540 per year	8·0
	£33,541 and above per year	1·0

Rates of interest

Official rate of interest:	5·0%	
Rate of interest on underpaid tax:	6·5%	(assumed)
Rate of interest on overpaid tax:	2·25%	(assumed)

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Question 1 begins on page 6.

ALL FIVE questions are compulsory and MUST be attempted

1 (a) Vanessa Serve and Serene Volley, aged 32 and 35 years respectively, are sisters. The following information is available for the tax year 2006–07:

Vanessa Serve

(1) Vanessa is self-employed as a tennis coach. Her tax adjusted trading profit for the year ended 30 June 2006 is £52,400. However, this figure is **before** taking account of capital allowances.

(2) The only item of plant and machinery owned by Vanessa is her motor car. This originally cost £16,400, and at 1 July 2005 had a tax written down value of £10,400. During the year ended 30 June 2006 Vanessa drove a total of 20,000 miles, of which 6,000 were for private journeys.

(3) Vanessa contributed £6,400 (gross) into a personal pension scheme during the tax year 2006-07.

(4) In addition to her self-employed income, Vanessa received interest of £1,100 from an investment account at the National Savings & Investments Bank during the tax year 2006–07. This was the actual cash amount received.

(5) Vanessa's payments on account in respect of the tax year 2006–07 totalled £8,705.

Serene Volley

(1) Serene is employed as a sports journalist by Backhand plc, a newspaper publishing company. During the tax year 2006–07 she was paid a gross annual salary of £26,400. Income tax of £4,790 was deducted from this figure under PAYE.

(2) Throughout the tax year 2006–07 Backhand plc provided Serene with a petrol powered motor car which has a list price of £16,400. The official CO_2 emission rate for the motor car is 192 grams per kilometre. The company did not provide Serene with any fuel for private journeys.

(3) Serene contributed 5% of her gross salary of £26,400 into Backhand plc's HM Revenue and Customs' registered occupational pension scheme.

(4) In addition to her employment income, Serene received interest of £1,200 on the maturity of a savings certificate from the National Savings & Investments Bank during the tax year 2006–07. This was the actual cash amount received.

(5) Serene did not make any payments on account in respect of the tax year 2006–07.

Required:

(i) Calculate the income tax payable by Vanessa and Serene respectively for the tax year 2006–07. (11 marks)

(ii) Calculate the national insurance contributions payable by Vanessa and Serene respectively for the tax year 2006–07. (4 marks)

(iii) Calculate Vanessa and Serene's respective balancing payments for the tax year 2006–07 and their payments on account, if any, for the tax year 2007–08. You should state the relevant due dates. (5 marks)

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

Unless stated otherwise all of the figures below are exclusive of VAT.

Vanessa Serve is registered for value added tax (VAT), and is in the process of completing her VAT return for the quarter ended 31 March 2007. The following information is available:

(1) Sales invoices totalling £18,000 were issued in respect of standard rated sales. All of Vanessa's customers are members of the general public.

(2) During the quarter ended 31 March 2007 Vanessa spent £600 on mobile telephone calls, of which 40% related to private calls.

(3) On 3 January 2007 Vanessa purchased a motor car for £12,000. On 18 March 2007 £987 was spent on repairs to the motor car. The motor car is used by Vanessa in her business, although approximately 10% of the mileage is for private journeys. Both figures are inclusive of VAT at the standard rate.

(4) On 29 March 2007 tennis coaching equipment was purchased for £1,760. Vanessa paid for the equipment on this date, but did not take delivery of the equipment or receive an invoice until 3 April 2007. This purchase was standard rated.

(5) In addition to the above, Vanessa also had other standard rated expenses amounting to £2,200 in the quarter ended 31 March 2007. This figure includes £400 for entertaining customers.

Required:

(i) Calculate the amount of VAT payable by Vanessa for the quarter ended 31 March 2007. (5 marks)

(ii) Advise Vanessa of the conditions that she must satisfy before being permitted to use the VAT flat rate scheme, and the advantages of joining the scheme. The relevant flat rate scheme percentage for Vanessa's trade as notified by HM Revenue and Customs is 6%.

Note: your answer should be supported by appropriate calculations of the amount of tax saving if Vanessa had used the flat rate scheme to calculate the amount of VAT payable for the quarter ended 31 March 2007. (5 marks)

(30 marks)

2 (a) Sofa Ltd is a manufacturer of furniture. The company's summarised profit and loss account for the year ended 31 March 2007 is as follows:

	Note	£	£
Gross profit			272,300
Operating expenses			
Depreciation		87,100	
Professional fees	1	19,900	
Repairs and renewals	2	22,800	
Other expenses	3	364,000	
			(493,800)
Operating loss			(221,500)
Profit from sale of fixed assets			
Disposal of shares	4		4,300
Income from investments			
Bank interest	5		8,400
			(208,800)
Interest payable	6		(31,200)
Loss before taxation			(240,000)

Note 1 – Professional fees

Professional fees are as follows:

	£
Accountancy and audit fee	3,400
Legal fees in connection with the issue of share capital	7,800
Legal fees in connection with the renewal of a ten year property lease	2,900
Legal fees in connection with the issue of debentures (see note 6)	5,800
	19,900

Note 2 – Repairs and renewals

The figure of £22,800 for repairs and renewals includes £9,700 for constructing a new wall around the company's premises and £3,900 for repairing the wall of an office building after it was damaged by a lorry. The remaining expenses are all fully allowable.

Note 3 – Other expenses

The figure of £364,000 for other expenses includes £1,360 for entertaining suppliers; £700 for entertaining employees; £370 for counselling services provided to an employee who was made redundant; and a fine of £420 for infringing health and safety regulations. The remaining expenses are all fully allowable.

Note 4 – Profit on disposal of shares

The profit on the disposal of shares of £4,300 is in respect of a shareholding that was sold on 29 October 2006.

Note 5 – Bank interest received

The bank interest was received on 31 March 2007. The bank deposits are held for non-trading purposes.

Note 6 – Interest payable

Sofa Ltd raised a debenture loan on 1 July 2006, and this was used for trading purposes. Interest of £20,800 was paid on 31 December 2006, and £10,400 was accrued at 31 March 2007.

Note 7 – Plant and machinery

On 1 April 2006 the tax written down values of plant and machinery were as follows:

	£
General pool	16,700
Expensive motor car	16,400

The following transactions took place during the year ended 31 March 2007:

		Cost/ (Proceeds) £
12 May 2006	Purchased equipment	11,400
8 June 2006	Sold the expensive motor car	(17,800)
8 June 2006	Purchased motor car (1)	22,200
2 August 2006	Purchased motor car (2)	10,900
19 October 2006	Purchased motor car (3)	13,800
8 January 2007	Sold a lorry	(7,600)
18 January 2007	Sold motor car (2)	(8,800)
10 February 2007	Purchased a second-hand freehold office building	280,000

Motor car (3) purchased on 19 October 2006 for £13,800 is a low emission motor car (CO_2 emission rate of less than 120 grams per kilometre). The expensive motor car sold on 8 June 2006 for £17,800 originally cost £26,800. The lorry sold on 8 January 2007 for £7,600 originally cost £24,400.

The cost of the second-hand office building purchased on 10 February 2007 for £280,000 includes fixtures qualifying as plant and machinery. These fixtures originally cost £44,800, and at the date of sale had a market value of £12,600 and a written down value of £9,400. Sofa Ltd and the vendor of the office building have made a joint election regarding the sale price of the fixtures to enable Sofa Ltd to claim the maximum possible amount of capital allowances in respect of them.

Sofa Ltd is a medium-sized company as defined by the Companies Acts.

Note 8 – Purchase of factory

On 1 July 2006 Sofa Ltd purchased a second-hand factory for £400,000 (including £133,500 for the land and £62,000 for a showroom). The factory was originally constructed at a cost of £445,000 (including £158,000 for the land and £68,000 for the showroom). The construction of the factory was completed on 1 October 2001, and it was first brought into use on 1 January 2002. The factory has always been used for industrial purposes.

Required:

Calculate Sofa Ltd's tax adjusted trading loss for the year ended 31 March 2007.

Note: your answer should commence with the loss before taxation figure of £240,000. You should assume that the company claims the maximum available capital allowances. (20 marks)

(b) Sofa Ltd has three subsidiary companies:

Settee Ltd
Sofa Ltd owns 100% of the ordinary share capital of Settee Ltd. For the year ended 30 June 2006 Settee Ltd had profits chargeable to corporation tax of £240,000, and for the year ended 30 June 2007 will have profits chargeable to corporation tax of £90,000.

Couch Ltd
Sofa Ltd owns 60% of the ordinary share capital of Couch Ltd. For the year ended 31 March 2007 Couch Ltd had profits chargeable to corporation tax of £64,000.

Futon Ltd
Sofa Ltd owns 80% of the ordinary share capital of Futon Ltd. Futon Ltd commenced trading on 1 January 2007, and for the three-month period ended 31 March 2007 had profits chargeable to corporation tax of £60,000.

Required:

Advise Sofa Ltd as to the maximum amount of group relief that can potentially be claimed by each of its three subsidiary companies in respect of its trading loss for the year ended 31 March 2007.

For the purposes of answering this part of the question, you should assume that Sofa Ltd's tax adjusted trading loss for the year ended 31 March 2007 is £200,000. (5 marks)

(25 marks)

3 David and Angela Brook are a married couple. They disposed of the following assets during the tax year 2006–07:

Jointly owned property

(1) On 29 July 2006 David and Angela sold a classic Ferrari motor car for £34,400. The motor car had been purchased on 17 January 1999 for £27,200.

(2) On 30 September 2006 David and Angela sold a house for £381,900. The house had been purchased on 1 October 1986 for £86,000.

David and Angela occupied the house as their main residence from the date of purchase until 31 March 1990. The house was then unoccupied between 1 April 1990 and 31 December 1993 due to Angela being required by her employer to work elsewhere in the United Kingdom.

From 1 January 1994 until 31 December 2000 David and Angela again occupied the house as their main residence. The house was then unoccupied until it was sold on 30 September 2006.

Throughout the period 1 October 1986 to 30 September 2006 David and Angela did not have any other main residence. The indexation factor from October 1986 to April 1998 is 0·650.

David Brook

(1) On 18 April 2006 David sold an antique table for £5,600. The antique table had been purchased on 27 May 2004 for £3,200.

(2) On 5 May 2006 David transferred his entire shareholding of 20,000 £1 ordinary shares in Bend Ltd, an unquoted trading company, to Angela. On that date the shares were valued at £64,000. David's shareholding had been purchased on 21 June 2004 for £48,000.

(3) On 14 February 2007 David made a gift of 15,000 £1 ordinary shares in Galatico plc to his son. On that date the shares were quoted on the Stock Exchange at £2·90 – £3·10. David had originally purchased 8,000 shares in Galatico plc on 15 June 2005 for £17,600, and he purchased a further 12,000 shares on 24 August 2005 for £21,600. David's total shareholding was less than 1% of Galatico plc's issued share capital.

Angela Brook

(1) On 5 May 2006 Angela sold an antique clock for £7,200. The antique clock had been purchased on 14 June 2004 for £3,700.

(2) On 7 July 2006 Angela sold 15,000 of the 20,000 £1 ordinary shares in Bend Ltd that had been transferred to her from David. The sale proceeds were £62,400.

Angela has taxable income of £40,000 for the tax year 2006-07. David does not have any taxable income.

Required:

Compute David and Angela's respective capital gains tax liabilities for the tax year 2006–07.

(20 marks)

4 Edmond Brick owns four properties which are let out. The following information relates to the tax year 2006–07:

Property one

This is a freehold house that qualifies as a trade under the furnished holiday letting rules. The property was purchased on 6 April 2006. During the tax year 2006–07 the property was let for eighteen weeks at £370 per week. Edmond spent £5,700 on furniture and kitchen equipment during April 2006. Due to a serious flood £7,400 was spent on repairs during November 2006. The damage was not covered by insurance. The other expenditure on this property for the tax year 2006-07 amounted to £2,710, and this is all allowable.

Property two

This is a freehold house that is let out furnished. The property was let throughout the tax year 2006–07 at a monthly rent of £575, payable in advance. During the tax year 2006–07 Edmond paid council tax of £1,200 and insurance of £340 in respect of this property. He claims the wear and tear allowance for this property.

Property three

This is a freehold house that is let out unfurnished. The property was purchased on 6 April 2006, and it was empty until 30 June 2006. It was then let from 1 July 2006 to 31 January 2007 at a monthly rent of £710, payable in advance. On 31 January 2007 the tenant left owing three months rent which Edmond was unable to recover. The property was not re-let before 5 April 2007. During the tax year 2006–07 Edmond paid insurance of £290 for this property and spent £670 on advertising for tenants. He also paid loan interest of £6,700 in respect of a loan that was taken out to purchase this property.

Property four

This is a leasehold office building that is let out unfurnished. Edmond pays an annual rent of £6,800 for this property, but did not pay a premium when he acquired it. On 6 April 2006 the property was sub-let to a tenant, with Edmond receiving a premium of £15,000 for the grant of a five-year lease. He also received the annual rent of £4,600 which was payable in advance. During the tax year 2006–07 Edmond paid insurance of £360 in respect of this property.

Furnished room

During the tax year 2006–07 Edmond rented out one furnished room of his main residence. During the year he received rent of £5,040, and incurred allowable expenditure of £1,140 in respect of the room. Edmond always computes the taxable income for the furnished room on the most favourable basis.

Required:

(a) State the income tax advantages of property one being treated as a trade under the furnished holiday letting rules. (3 marks)

(b) Calculate Edmond's furnished holiday letting loss in respect of property one for the tax year 2006–07. (3 marks)

(c) Calculate Edmond's property business profit in respect of the other three properties and the furnished room for the tax year 2006–07. (9 marks)

(15 marks)

5 Samantha Fabrique has been a self-employed manufacturer of clothing since 1994. She has the following gross income and chargeable gains for the tax years 2003–04 to 2006–07:

	2003–04	2004–05	2005–06	2006–07
	£	£	£	£
Trading profit/(loss)	6,100	51,600	(84,000)	12,200
Building society interest	–	2,100	3,800	1,500
Chargeable gains/(loss)	18,800	23,300	(3,400)	12,200

The chargeable gains are stated after taking account of indexation, but before taking account of loss relief and the annual exemption. No taper relief is available.

Required:

(a) State the factors that will influence an individual's choice of loss relief claims. (3 marks)

(b) Calculate Samantha's taxable income and taxable gains for each of the tax years 2003–04, 2004–05, 2005–06 and 2006–07 on the assumption that she relieves the trading loss of £84,000 for the tax year 2005–06 on the most favourable basis.

You should assume that the tax allowances for the tax year 2006–07 apply throughout. (7 marks)

(10 marks)

End of Question Paper