
Answers

1		(a)		(i)		Tony Gray – Tax payable 2003–04				Marks
				Non Savings £	Savings £	Dividend £	Total £			
		Salary		38,460					0.5	
		Benefits		2,290					0.5	
		Employment income		40,750			40,750			
		Schedule A rent		820			820		0.5	
		Bank interest (£280 x 100/80)			350		350		1	
		Building society interest (£360 x 100/80)			450		450		1	
		Dividend (£270 x 100/90)				300	300		1	
		Statutory total income (STI)		41,570	800	300	42,670			
		Personal allowance		-4,615			-4,615		0.5	
		Taxable income		£36,955	£800	£300	£38,055			
		Note: ISA interest is tax free							1	
		Tax payable:	£		£	£				
		1st	1,960 x 10%			196			0.5	
		Next	28,940 * x 22%			6,367			0.5	
		Next	6,055 x 40%			2,422			0.5	
			36,955							
		Savings	800 x 40%			320			0.5	
		Dividend	300 x 32.5%			97			0.5	
						9,402				
		Tax deducted at source:								
		Savings (£70 + £90)			160				0.5	
		Dividend			30				0.5	
		PAYE			7,442	-7,632			0.5	
						£1,770				
		*Basic band extended								
		(£30,500 – £1,960) + (£312 x 100/78) = £28,940							1	
									11	
		(ii) The outstanding amount can be settled in one of two ways:								
		(1) Full settlement on or before 31 January 2005							1	
		(2) Collected by adjusting the 2005–06 tax code, provided that the tax return is received by the Inland Revenue on or before 30 September 2004							2	
		Note: this method of collection can only be used if the amount owed is less than £2,000							3	
		(iii) Tony Gray – Class 1 NIC								
		(£30,940 – £4,615) x 11%			2,896				1.5	
		(£38,460 – £30,940) x 1%			75				1.5	
					£2,971					
									3	
		(iv) Ads4U Ltd								
		Class 1 (£38,460 – £4,615) x 12.8%			4,332				1.5	
		Class 1A £2,290 x 12.8%			293				1.5	
					£4,625					
									3	
									3	

			Marks
(b)	Trudy Gray – Benefits 2003–04		
Van	£		
Statutory benefit	500		1
Note: petrol is included in the van benefit			0.5
Entertainment system			
	£		
Original cost	1,200		
Assessments for:			
2001–02	–240		
2002–03	–240		
2003–04 (6 months only)	–120	120	
	<u>£600</u>		2.5
Current market value	<u>£300</u>		0.5
Higher of the two		600	0.5
Overseas expenses			
£14 a night exceeds the statutory limit of £10 therefore the full amount is taxable		1,120	1.5
Luncheon vouchers			
£336 – (224 x 15p)		302	1
Mileage			
(55p – 40p) x 6,000 miles		900	1.5
Total benefits		<u>£3,542</u>	9
(c) (i)	Trudy Gray – Pension contributions 2003–04		
Take the highest NRE of the current year and previous five years = £43,000			
Age at start of tax year 2003–04 = 41 years			
Applicable percentage therefore = 20%			
Maximum contribution = £43,000 x 20%		<u>£8,600</u>	2
(ii) Payable by 31 January 2005			1
(iii) Premiums are paid to the pension provider net of tax at 22%			1
Higher rate relief is given by extending the basic rate band by the gross pension contribution			1
			5
Total			34

2 (a) (i)	Capital allowances – UK Fabrics Ltd		
	P & M Pool £	CAs £	
January–December 2003			
Balance b/fwd	280,000		
Disposal	–4,000		1
	<u>276,000</u>		
WDA x 25%	–69,000	69,000	1
	<u>207,000</u>		
Purchase	40,000		
FYA x 40%	–16,000	16,000	1
Balance c/fwd	<u>£231,000</u>		
Total allowances		<u>£85,000</u>	
January–March 2004			
Balance b/fwd	231,000		
Purchase (No FYA)	9,000		0.5
	<u>240,000</u>		
WDA x 25% x 3/12	–15,000	15,000	1.5
Balance c/fwd	<u>£225,000</u>		
Total allowances		<u>£15,000</u>	5

				Marks
(ii) Adjusted Schedule D Case I profits – UK Fabrics Ltd				
		£		
Net profit per accounts		1,635,000		
Deduct:				
Profit on sale of asset	141,000		0.5	
Rental income	168,000	-309,000	0.5	
		<u>1,326,000</u>		
Add back:				
Depreciation	70,000		0.5	
Increase in bad debt provision	18,000		0.5	
Entertainment of customers	2,000		0.5	
Gifts (food hampers)	3,000	93,000	0.5	
Adjusted profits		<u>£1,419,000</u>		
Note: legal fees on the renewal of a short lease and trade debt collection are allowable expenses				1
Split:	Jan–Dec 2003	Jan–Mar 2004		
	£	£		
Adjusted profit (12:3)	1,135,200	283,800	1	
Capital allowances (part (i))	-85,000	-15,000	1	
Adjusted Schedule D Case I profits	<u>£1,050,200</u>	<u>£268,800</u>		6
(iii) Corporation tax payable – UK Fabrics Ltd	Jan–Dec 2003	Jan–Mar 2004		
	£	£		
Schedule D Case I profit	1,050,200	268,800		
Schedule A rent (accruals basis)	144,000	36,000	2	
Chargeable gain (W1)	43,560		2	
Profits chargeable to corporation tax	<u>£1,237,760</u>	<u>£304,800</u>		
Tax payable:				
January–December 2003:				
£1,237,760 x 30%	371,328			
(£1,500,000 – £1,237,760) x 11/400	-7,212			
	<u>£364,116</u>		1.5	
January–March 2004:				
£304,800 x 30%		91,440		
(£375,000 – £304,800) x 11/400		-1,930		
		<u>£89,510</u>	1.5	
Workings:				
1. Gain	£			
Proceeds	267,000			
Cost	-210,000			
	<u>57,000</u>			
Indexation allowance				
£210,000 x 0.064	-13,440			
	<u>£43,560</u>			
2. Upper limits for three months ending 31 March 2004				
£1,500,000 x 3/12 =	£375,000		1	
£300,000 x 3/12 =	£75,000			
				<u>8</u>

(b) AccountsRUs Ltd
Leeds
LS19 4PS
Tel: 01977 765432

8 January 2004

Reference: XXX

John Starr
Help4U Ltd
Leeds
LS23 5TH

Dear Mr Starr

VAT REGISTRATION

I reply to your letter of 6 January 2004 concerning the rules of compulsory VAT registration.

Compulsory registration is required when either one of the two tests outlined below is met:

- | | |
|--|---|
| (1) Within any continuous period, not exceeding 12 months, the cumulative taxable supplies exceed the VAT threshold of £56,000 | 1 |
| (2) Within any 30 day period alone it is expected that taxable supplies will exceed the VAT threshold of £56,000 | 1 |

In the case of (1) above you are required to notify Customs and Excise within 30 days of the end of the qualifying period and in the case of (2) before the end of that 30 day period.

2

Registration will be effective in the case of (1) above from the end of the month following the month in which the £56,000 was exceeded. In the case of (2) registration will be effective from the start of the 30 day period.

2

I hope this answers your queries but if I can be of any further assistance please do not hesitate to ring me on the above number.

Yours sincerely
A Tax Technician

Presentation

2

8

Total

27

3 (a)	Amanda Perkins – Chargeable gains 2003–04	Marks
Land	£	
Proceeds	80,000	
Less fees (10%)	<u>–8,000</u>	
	72,000	1
Cost		
£120,000 x $\frac{80,000}{80,000 + 240,000}$	<u>–30,000</u>	2
	<u>£42,000</u>	
Taper relief 3 yrs: 95%		0.5
House		
Proceeds	290,000	
Indexed cost	<u>–186,000</u>	
	<u>£104,000</u>	1
Taper relief 5 yrs + 1 bonus: 80%		0.5
Shares		
Matched with January 2004 (next 30 days)		0.5
Proceeds 200/2,000 x £3,500	350	
Cost	<u>–300</u>	
	<u>£50</u>	1
No taper relief		
Matched with October 2003 (purchases since 6 April 1998 – LIFO basis)		
Proceeds 500/2,000 x £3,500	875	
Cost	<u>–775</u>	
	<u>£100</u>	1
No taper relief		
Matched with November 2000 (purchases since 6 April 1998 – LIFO basis)		
Proceeds 500/2,000 x £3,500	875	
Cost	<u>–550</u>	
	<u>£325</u>	1
Taper relief 3 years: 25%		0.5
Matched with September 1993 (FA 85 pool)		
Proceeds 800/2,000 x £3,500	1,400	
Indexed cost 800/1,000 x £640	<u>–512</u>	
	<u>£888</u>	1.5
Taper relief 5 years: 25%		0.5
Use of loss		
Against gains with lowest taper relief		
Shares (£50 + £100) – £150	Nil	
Land £42,000 – £8,350	£33,650	2
Summary of gains		
Land £33,650 x 95%	31,967	0.5
House £104,000 x 80%	83,200	0.5
Shares £325 x 25%	81	0.5
Shares £888 x 25%	<u>222</u>	0.5
	115,470	
Annual exemption	<u>–7,900</u>	1
Net taxable gains	<u>£107,570</u>	
		<u>16</u>

					Marks
(b) (i) Harry Perkins – Chargeable gain					
		£			
Proceeds (deemed)		185,000			
Cost		<u>–90,000</u>			
		95,000			1
Chargeable now (£115,000 – £90,000)		<u>–25,000</u>			1.5
Deferred gain – gift relief		<u>£70,000</u>			0.5
Taper relief 4 years: 25% Chargeable gain £25,000 x 25%		<u>£6,250</u>			1
(ii) Amanda Perkins base cost					
£185,000 – £70,000 =		<u>£115,000</u>			1
					<u>5</u>
				Total	21
4 (a) (i) Share of partnership profits					
	Charles £	Meg £	Rodney £	Total £	
January–June 2003					
Salary	5,000	4,000		9,000	1
Interest on capital	500	400	300	1,200	1.5
Profit share	16,600	16,600	16,600	49,800	1.5
	<u>22,100</u>	<u>21,000</u>	<u>16,900</u>	<u>60,000</u>	
July–December 2003					
Salary	5,000	4,000		9,000	1
Interest on capital	500	400		900	1
Profit share	25,050	25,050		50,100	1
	<u>30,550</u>	<u>29,450</u>		<u>60,000</u>	
Total	<u>£52,650</u>	<u>£50,450</u>	<u>£16,900</u>	<u>£120,000</u>	1
					<u>8</u>
(ii) Rodney – Schedule D Case I assessment					
2003–04	Balance of profit	16,900			1
	Overlap profits	<u>–6,000</u>			1
		<u>£10,900</u>			
					<u>2</u>
(b) (i) Allowable cost – Industrial buildings allowance					
		£			
Factory cost	180,000				1
Legal fees	10,000				1
Tunnelling	12,000				1
	<u>£202,000</u>				
Note:					
Land is never allowed					1
Office – 25% rule applies					
	70,000				
	x 100	25.74%			
	272,000				
more than 25% therefore not allowed					2
					<u>6</u>
(ii) Industrial buildings allowance available					
4% x £202,000 =	£8,080				
£8,080 x 8/12 =	<u>£5,387</u>				2
				Total	18