

Preparing Taxation Computations

(UK Stream)

ACCA CERTIFIED ACCOUNTING TECHNICIAN EXAMINATION

ADVANCED LEVEL

TUESDAY 14 DECEMBER 2004

QUESTION PAPER

Time allowed **3 hours**

ALL FOUR questions are compulsory and **MUST** be answered

Tax rates and allowances are on pages 3–5

Do not open this paper until instructed by the supervisor

This question paper must not be removed from the examination hall

The Association of Chartered Certified Accountants

Paper T9(GBR)



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The question paper begins on page 3.**

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

Income Tax

Starting rate	£1–£1,960	10%
Basic rate	£1,961–£30,500	22%
Higher rate	£30,501 and above	40%

Note:

UK dividends will be taxed at 10% when they fall within the basic rate band and 32.5% thereafter.

Personal allowance

Personal allowance	£ 4,615
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Company car benefit

Base level for CO₂ emissions: 155 grams per kilometre

Car fuel benefit

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

Authorised mileage allowances

All cars:	
Up to 10,000 miles	40p
Over 10,000 miles	25p

Personal pension contribution limits

The maximum contribution that can be made without evidence of earnings is £3,600.

Age at start of tax year	Maximum percentage
Up to 35	17.5
36–45	20
46–50	25
51–55	30
56–60	35
61 or more	40

Subject to earnings cap of £99,000

Official Rate of Interest

5%

Capital allowances

	%
Plant and machinery	
Writing down allowance	25
First year allowance – plant and machinery	40
– information and communication technology equipment (until 31 March 2004)	100
– low emission motor cars	100
Industrial buildings	
Writing down allowance	4

Corporation tax

Financial year	2003	2002
Starting rate	0%	0%
Small companies rate	19%	19%
Full rate	30%	30%
Starting rate lower limit	£10,000	£10,000
Starting rate upper limit	£50,000	£50,000
Small companies lower limit	£300,000	£300,000
Small companies upper limit	£1,500,000	£1,500,000
Marginal relief fraction:		
Starting rate	19/400	19/400
Small companies rate	11/400	11/400

Marginal relief

$(M - P) \times I/P \times \text{Marginal relief fraction}$

Value added tax

	£
Registration limit	56,000
Deregistration limit	54,000

Capital gains tax: annual exemption

Individuals	£7,900
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Capital gains tax: taper relief

The percentage of the gain chargeable is as follows:

Complete years after 5 April 1998 for which asset held	Gains on business assets %	Gains on non-business assets %
0	100	100
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–£4,615 per year	Nil
	£4,616–£30,940 per year	11·0
	£30,941 and above per year	1·0
Class 1 employer	£1–£4,615 per year	Nil
	£4,616 and above per year	12·8
Class 1A		12·8
Class 2	£2·00 p.w.	
Class 4	£1–£4,615 per year	Nil
	£4,616–£30,940 per year	8·0
	£30,941 and above per year	1·0

All apportionments should be made to the nearest month.

Calculations and workings need only be made to the nearest £.

All workings should be shown.

ALL FOUR questions are compulsory and MUST be attempted

1 (a) Tony Gray is 43 years old and is employed as an advertising manager for Ads4U Ltd, a UK resident company. It is now 14 June 2004 and Tony is preparing his tax return for the tax year 2003–04. He has gathered together the following documents and other information for that year:

- Form P60 showing taxable employment income of £38,460 and income tax deducted under PAYE of £7,442
- Form P11D showing total taxable benefits received of £2,290
- A bank statement from County Bank plc showing net interest credited of £280
- An interest statement from Town Building Society showing net interest credited of £360
- A statement from City Building Society showing interest credited of £120 from an individual savings account (ISA)
- Dividend vouchers showing cash dividends received totalling £270
- A letting agent's statement showing taxable Schedule A rent of £820
- An amount of £312 was paid to a registered charity under the gift aid scheme

Required:

(i) Calculate Tony's income tax payable for the tax year 2003–04. (11 marks)

(ii) State the two ways in which the Inland Revenue may collect any tax owing for the tax year 2003–04. (3 marks)

(iii) Calculate Tony's total Class 1 national insurance contributions (NIC) for the tax year 2003–04. (3 marks)

(iv) Calculate the total employer's Class 1 and Class 1A NIC paid by Ads4U Ltd in respect of Tony for the tax year 2003–04. (3 marks)

(b) Tony's wife Trudy is also employed by Ads4U Ltd earning in excess of £35,000 every year. During the tax year 2003–04 she received the following benefits:

- A 2,000 cc commercial van, first registered in August 2002, used privately for 40% of the time. This was made available for Trudy's use for the whole of 2003–04. Ads4U Ltd paid for all of the running costs including petrol, which amounted to £600 for the year.
- A home entertainment system. This was first provided for Trudy to use at home on 6 April 2001, the date it was purchased by her employer at a cost of £1,200. The system was given to Trudy to keep on 6 October 2003 when it was worth £300.
- An allowance of £14 per night to cover miscellaneous expenses for overseas business trips totalling 80 nights.
- Luncheon vouchers amounting to £336 in respect of 224 working days.
- A mileage allowance of 55p per mile for the 6,000 business miles travelled by Trudy in her own car.

Required:

Calculate the total value of Trudy's taxable benefits for the tax year 2003–04. (9 marks)

- (c) Trudy is 41 years old. She has never previously contributed to a personal pension plan, but feels it is now time to think about her retirement.

Her net relevant earnings (NRE) for the past six tax years have been:

1998–1999	£41,000
1999–2000	£43,000
2000–2001	£38,000
2001–2002	£42,000
2002–2003	£41,000
2003–2004	£42,000

It is now 20 September 2004.

Required:

Advise Trudy of:

- (i) **The maximum amount that she may pay into a private pension plan for the tax year 2003–04.** (2 marks)
- (ii) **The latest date by which the premium must be paid.** (1 mark)
- (iii) **How tax relief will be given for the contributions paid.** (2 marks)

(34 marks)

- 2 (a) UK Fabrics Ltd has no associated companies and has previously drawn up its accounts to 31 December each year. During 2003 the company decided to change its permanent accounting year-end to 31 March.

The following information is provided in respect of the 15-month period of account ending 31 March 2004:

	£	£
Turnover		3,410,000
Cost of sales		(1,600,000)
Gross profit		<u>1,810,000</u>
Profit on sale of an asset (note 1)		141,000
Rent received (note 2)		168,000
Depreciation	70,000	
Wages	320,000	
Power and lighting costs	48,000	
Increase in general provision for bad debts	18,000	
Miscellaneous expenses (note 3)	28,000	(484,000)
Net profit		<u><u>£1,635,000</u></u>

Notes:

- The profit shown is the gain, after accounting for depreciation, on the sale of an unwanted showroom for £267,000 in August 2003. The showroom had originally been purchased for £210,000 in October 1999. The indexation factor for October 1999 to August 2003 is 0.064.
- The rent received is in respect of an office block leased to another UK resident company for £12,000 per month. The unpaid amount is due in April 2004.
- The amount of £28,000 comprises:

	£
Legal fees in respect of trade debt collection	5,000
Customer entertainment	2,000
Gifts of food hampers to customers valued at £60 each	3,000
Legal fees in respect of the renewal of a 40 year lease on its factory	3,500
Office expenses (all allowable)	14,500
	<u><u>£28,000</u></u>

- The tax written down value of plant and machinery qualifying for capital allowances as at 1 January 2003 was £280,000. During the 15 months ending 31 March 2004 the company purchased a machine for £40,000 on 14 May 2003 and a car (which is not a low emission car) for £9,000 on 2 February 2004. An old machine, which had previously cost £5,000 in May 2002 was sold for £4,000 on 14 August 2003. The company is classed as medium sized for capital allowances purposes.

Required:

For each of the two tax accounting periods comprising UK Fabric Ltd's fifteen month period of account ending 31 March 2004:

- Calculate the maximum capital allowances available. (5 marks)
- Calculate the adjusted Schedule D Case I profit (after capital allowances). (6 marks)
- Calculate the corporation tax payable. (8 marks)

- (b) You are a tax technician working for AccountsRUs, a small accountancy firm. Your line manager has asked you to reply to a letter, received on 6 December 2004, from a new client.

The letter is from John Starr, the managing director of Help4U Ltd, a newly formed company situated in Leeds. He has asked for advice on the value added tax (VAT) registration rules.

Required:

Draft a letter to John Starr giving brief details of the compulsory registration rules for VAT.

Your letter should include:

- details of when compulsory registration for VAT is due;
 - the dates by which Customs and Excise must be notified of registration;
- and
- the effective date of registration.

(Details of voluntary registration for VAT and the rules on deregistration from VAT, are not required.)

Marks will be awarded for the style and presentation of your answer.

(8 marks)

(27 marks)

- 3 (a) Amanda Perkins is 29 years old and is a UK resident. During the tax year 2003–04 she made the following disposals of capital assets:

17 August 2003: Four acres of land were sold for a gross amount of £80,000. An auctioneer's fee of 10% was charged on the disposal. The land had been part of a ten-acre plot that had cost £120,000, in September 1999. The market value of the remaining six acres was £240,000, in August 2003. The land has never been used as a business asset.

15 November 2003: A house, which had never been her main residence, was sold for £290,000. It had cost £100,000 in May 1984 and had an indexed cost of £186,000 on 6 April 1998. The house has never been used as a business asset.

14 January 2004: 2,000 shares in APC Ltd were sold for £3,500. Amanda's purchases of APC Ltd shares have been:

14 September 1993:	1,000 shares for £500
16 November 2000:	500 shares for £550
19 October 2003:	500 shares for £775
20 January 2004:	200 shares for £300

The indexed value of the FA 1985 pool on 6 April 1998 was £640.

The shares are classed as a business asset.

Amanda had a capital loss of £8,500 bought forward as at 6 April 2003.

Required:

Calculate Amanda's net taxable gains for the tax year 2003–04. (You are not required to calculate the capital gains tax payable.) (16 marks)

- (b) Amanda's father, Harry, owns a small shop, which he has always used as a business asset. It cost him £90,000 in October 1999.

On 14 February 2004 he sold the shop to Amanda for £115,000 when it had a market value of £185,000.

Required:

- (i) **Calculate Harry's chargeable gain on the disposal of the shop assuming that holdover relief is claimed on the gift of the business asset.** (4 marks)
- (ii) **State Amanda's base cost for future capital gains tax purposes.** (1 mark)

(21 marks)

- 4 (a) Charles, Meg and Rodney have been in partnership for several years making up their accounts to 31 December annually. Profits have always been shared equally after allocation of salaries of £10,000 and £8,000 to Charles and Meg respectively and interest on capital of 5% to each of the three partners.

The partners have capital invested amounting to:

Charles	£20,000
Meg	£16,000
Rodney	£12,000

On 30 June 2003 Rodney left the partnership and withdrew his capital to start his own business. The remaining two partners continued with the same salaries and interest on capital, sharing any balance equally between them.

Rodney had overlap profits of £6,000 available from the opening years of the partnership.

The adjusted profit of the partnership for tax purposes for the accounting year ending 31 December 2003 was £120,000.

Required:

- (i) Calculate the profit share attributable to each partner for the accounting period ending 31 December 2003. (8 marks)
- (ii) Calculate Rodney's Schedule D Case I profit for his final year of assessment. (2 marks)
- (b) Rodney started his new business on 1 August 2003 and made up his first set of accounts for the period ended 31 March 2004.

He purchased a new factory for use in the business on 1 September 2003, which was taken into industrial use immediately. The factory was purchased for £362,000.

The cost breakdown was:

	£
Land	90,000
Factory structure	180,000
Legal fees	10,000
Tunnelling	12,000
Administration office	70,000
Total	£362,000

Required:

- (i) Calculate the allowable cost for industrial buildings allowance (IBA) purposes. (6 marks)
- (ii) Calculate the IBA available for the accounting period ending 31 March 2004. (2 marks)

(18 marks)

End of Question Paper