Answers

1 (a) Penny Donald – Income tax assessment – 2003/04

	Non-savings	Savings	Dividend	Total	Marks
	£	£	£	£	
Salary	46,000				0·5
Benefits (w1)	15,088				
	61,088				
Pension contributions	–4,200				1
Employment earnings	56,888			56,888	
Building society interest – £2,400 x 100/80		3,000		3,000	1
Dividend – £900 x 100/90			1,000	1,000	1
Statutory total income (STI)	56,888	3,000	1,000	60,888	
Personal allowance	–4,615			–4,615	0·5
Taxable income	£52,273	£3,000	£1,000	£56,273	

Tax payable:				£	Marks
1st	1,960	x 10%		196	0·5
Next	29,040	* x 22%		6,389	0·5
Next	21,273	x 40%		8,509	0·5
	52,273				
Savings	3,000	x 40%		1,200	0·5
Dividend	1,000	x 32·5%		325	0·5
	£56,273			16,619	
Deducted at source					
Building society interest			600		0·5
Dividend			100		0·5
Pay as you earn (PAYE)			9,165	–9,865	0·5
Tax payable				£6,754	

* Basic rate band extended by charitable donation – £28,540 + (£390 x 100/78) = £29,040 — 1

ISA interest not taxable — 0·5

Working 1

						Marks
Benefits	Car	CO_2 emission	242			
		1st	–155			
			87			0·5
		87/5	17 (rounded down)			0·5
		15 + 17 =	32%			0·5
		£21,000 x 32%		£6,720		1
	Fuel	£14,400 x 32%		£4,608		1
	Parking	Exempt				1
	Medical insurance	Cost of providing		£800		1
	Nursery	Cost of providing		£2,500		1
	Computer	£4,800 x 20%	960			
		1st	–500	£460		2
	Total benefits				15,088	
					Total	18

			Marks
(b)	**(i)** P60 31 May 2004		2
	(ii) P11D 6 July 2004		2
	(iii) 30 September 2004		1
		Total	5

(c) National insurance contributions (NIC)

						Marks
Adrian	Class 1	1st	£4,615		nil	0·5
		Next	£26,325	x 11%	2,896	1
		Next	£7,060	x 1%	71	1
					£2,967	
Modern Fashions plc						
	Class 1	1st	£4,615		nil	0·5
		Next	£33,385	x 12·8%	4,273	1
	Class 1A		£2,400	x 12·8%	307	1
					£4,580	
					Total	5

(d) Schedule A income

Rent receivable (accruals basis):			
April–December – 9/12 x £7,200	5,400		
January–March – 3/12 x £7,800	1,950	7,350	1
Expenditure:			
Water rates	380		0·5
Agent's fees	780		0·5
Decoration	1,250		0·5
Interest	2,500		0·5
Wear and tear			
(£7,350 – £380) x 10%	697	–5,607	1·5
Assessable amount		£1,743	

Kitchen units are regarded as capital expenditure and is not allowed as a deduction. 0·5

Total 5

Total answer 1 **33**

2 (a) (i) Baker Productions plc – capital allowances for year ended 31 March 2004

	P & M	**SLA**	**Allowances**	
	£	**£**	**£**	
Balances b/forward	112,000	2,900		
Disposal		–3,400		0·5
	112,000	–500		
Balancing charge		500	–500	1
WDA – 25%	–28,000		28,000	0·5
	84,000	0		
Purchase	20,000			0·5
FYA – 40%	–8,000		8,000	0·5
	£96,000	nil		
Total capital allowances			£35,500	

			Marks
Industrial buildings allowance (IBA)			
Lower of cost or second-hand value – £100,000			
Remaining tax life – 1 May 1998 – 31 July 2020 = 22·25 yrs			
$\frac{£100,000}{22·25}$ = £4,494			3
Total allowances: £35,500 + £4,494 =	£39,994		
		Total	6

(ii) Baker Productions plc – Corporation tax payable for year ended 31 March 2004

	£	£	
Adjusted trading profit	262,400		0·5
Less capital allowances	–39,994		0·5
Adjusted Schedule D Case I profit		222,406	
Loss brought forward		–9,406	1
		213,000	
Rent		24,000	0·5
Schedule D Case III (£8,000 + £14,000)		22,000	1
Capital gain (w1)	41,517		
Capital loss brought forward	–10,500	31,017	1
		290,017	
Charge on income		–2,000	1
Profit chargeable to corporation tax (PCTCT)		288,017	
Franked investment income (FII) (£5,400 x 100/90)		6,000	1
Profits		£294,017	

Dividend from Street Industries Ltd is not taken into account 1

	£	
Tax payable:		
£288,017 x 30%	86,405	1
(£750,000 – £294,017) x $\frac{288,017}{294,017}$ x 11/400	–12,284	1
	£74,121	

Working 1 – Gain	£	£	
Proceeds		180,000	0·5
Cost	60,000		0·5
Extension	21,000	–81,000	0·5
		99,000	
Indexation allowance:			
£60,000 x 0·866		–51,960	0·5
£21,000 x 0·263		–5,523	0·5
		£41,517	

Working 2 – Tax thresholds

$\frac{£1,500,000}{2}$ =	£750,000	
$\frac{£300,000}{2}$ =	£150,000	1
	Total	13

				Marks
(b)	**City Merchandise Ltd – Value Added Tax (VAT) for quarter ended 31 March 2004**			
		£	£	
	Standard rated sales – £110,000 x 95% x 17·5%		18,288	2
	Standard rated purchases – £60,000 x 17·5%	10,500		0·5
	Electricity – £4,000 x 7/47	596		0·5
	Accounting – £1,000 x 7/47	149		0·5
	Repairs – £2,500 x 7/47	372	–11,617	0·5
	Amount payable		£6,671	
	Wages are outside the scope of VAT			1
	Payable by: 30 April 2004			1
			Total	6
			Total answer 2	**25**

3 (a) Bobby Jenkins – Capital gains tax for the tax year 2003/04

				Marks
18 May 2003		£		
Net proceeds		8,450		
Cost		–3,200		
		£5,250		1
Marginal relief				
(£9,000 – £6,000) x 5/3		£5,000		2
Lower gain taken		£5,000		0·5
Taper relief: 3 years – 95%				
21 October 2003				
Working:				
	Shares	**Cost**		
		£		
Purchased	2,400	8,100		
Rights issue	600	2,700		
	3,000	10,800		
Disposal	–2,000	–7,200	(average cost)	2
	1,000	£3,600		
Gain:		£		
Proceeds		15,400		
Cost		–7,200		
		£8,200		1
Taper relief: 5 years – 25% (business asset)				
19 November 2003		£		
Deemed proceeds		6,000		
Cost		–7,500		
Loss		–£1,500		2
2 March 2004		£		
Proceeds		24,000		
Indexed cost		–13,460		
		£10,540		1
Taper relief: 5 years + 1 bonus year = 6 years – 80%				

			Marks
Summary:			
The loss should be used against the gain entitled to the lowest amount of taper relief (i.e. gain 1)			1
		£	
(£5,000 – £1,500) x 95%		3,325	1
£8,200 x 25%		2,050	0·5
£10,540 x 80%		8,432	1
		13,807	
Annual exemption		–7,900	0·5
Total chargeable gains		£5,907	
Tax payable:	£		
1st £2,080 (£30,500 – £28,420) x 20%		416	1
Remaining £3,827 (£5,907 – £2,080) x 40%		1,531	0·5
		£1,947	
Due date: 31 January 2005			1
		Total	16

(b)

A Student
Accountants Office
Somewhere
England
Tel:

Louise Duncan
At Home
Elsewhere
England

Reference:

June 2004

Dear Louise

DEFERMENT OF CAPITAL GAINS TAX

With reference to your query the relief that you refer to is replacement of business asset relief, which is more commonly known as rollover relief.	1
The relief works by deducting the gain on the original disposal from the cost of the replacement asset and subsequently using this reduced cost for the calculation of the gain on the future disposal of that replacement asset.	1
The conditions which must be fulfilled are: Both the sold and purchased assets must be used in the business. Both assets must be within specified categories (mainly buildings and fixed plant and machinery). The replacement must be purchased within the time frame of one year before and up to three years after the sale of the original asset. All the proceeds of the sale must be reinvested or the relief is restricted by the amount not reinvested.	4
If the asset purchased is a depreciating asset such as plant and machinery then a modified version of the relief known as holdover relief is available.	1
The difference here is that the gain is not deducted from the replacement cost but is simply deferred until the earliest of the following three events: The new asset is sold The new asset is no longer used in the business The tenth anniversary of the purchase of the new asset	3
If you require further assistance please do not hesitate to contact me.	
Yours sincerely	
A Student — Presentation	2
Total	12
Total answer 3	**28**

4 (a) Amanda Cooke – Capital allowances for the year ended 31 May 2003

	£		£	Marks
Car				
Period ended 31 May 2001				
Value	6,400			
WDA – 25% x 6/12	–800			
	5,600			1
Year ended 31 May 2002				
WDA – 25%	–1,400			0·5
	4,200			
Year ended 31 May 2003				
WDA – 25%	–1,050	x 60%	630	1
	£3,150			
Sewing machine				
Year ended 31 May 2003				
Balance b/forward	240			
WDA – 25%	–60		60	0·5
	£180			
	Total		£690	
				3

(b) Amanda Cooke – Adjusted Schedule D Case I profit for the year ended 31 May 2003

	£	£	Marks
Net profit per accounts		7,760	
less: Bank interest		–450	0·5
		7,310	
Add back:			
Electricity – £810 x 40%	324		1
Depreciation	120		0·5
Drawings	640		0·5
Car expenses – £1,840 x 40%	736	1,820	1
		9,130	
Capital allowances		–690	0·5
		£8,440	
			4

(c) Amanda Cooke – Opening year assessments

			Marks
2000/01	Actual 1 December 2000–5 April 2001 4/6 x £4,260	£2,840	1·5
2001/02	1st 12 months 1 December 2000–30 November 2001 £4,260 + (6/12 x £8,190)	£8,355	1·5
2002/03	c/yr basis – 31 May 2002	£8,190	1
2003/04	c/yr basis – 31 May 2003	£8,440	1
			5

			Marks
(d) Amanda Cooke – Overlap profits			
		£	
Assessments	2000/01	2,840	
	2001/02	8,355	
	2002/03	8,190	
		19,385	
Earned		–4,260	
		–8,190	
		£6,935	2
		total answer 4	**14**