

Preparing Taxation Computations

(UK Stream)

ACCA CERTIFIED ACCOUNTING TECHNICIAN EXAMINATION

ADVANCED LEVEL

TUESDAY 15 JUNE 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

Paper T9(GBR)

The Association of Chartered Certified Accountants



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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

Lower 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 allowances

Personal allowance under 65	£ 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

Approved 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	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 %
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

Capital gains tax: indexation factors (question 2)

August 1985–December 2003:	0.866
May 1993–December 2003:	0.263

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 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) Penny Donald is 46 and works as a sales manager for Modern Fashions plc, a large UK resident company. Penny's salary is £46,000 per annum.

During the tax year 2003/04 Modern Fashions plc provided Penny with the following benefits:

- The use of a company car. This was a petrol driven 2000 cc BMW with a CO₂ emission level of 242 gm/km and a recommended list price of £21,000. The car was for Penny's sole use and she drove a total of 12,000 miles during 2003/04 of which 60% were on business related journeys. The company paid for all the petrol used by Penny, however Penny contributed £40 per month towards the overall cost of this.
- Workplace parking which cost the company £1,200 per year.
- Private medical insurance. This cost the company £800, but would have cost Penny £960 if she had arranged this herself.
- Nursery provision for Penny's two children. This cost the company £2,500 and was used by Penny to help pay for the fees at Penny's local nursery school.
- A computer system with a recommended selling price of £4,800. This Penny used at home for both business and private purposes. She estimates that 40% of the use was for business and 60% for personal use. The computer was first provided in February 2003.

Penny paid £350 per month to the company's occupational pension scheme.

Penny paid tax of £9,165 under the PAYE system for the year 2003/04.

In addition to the above Penny received the following investment income for 2003/04:

- Building society interest of £2,400
- UK dividend income of £900
- Interest of £350 from an Individual Savings Account (ISA).

The above amounts are stated as the cash amounts received.

Penny also paid a cash amount of £390 in December 2003 to the charity, Oxfam, under the gift aid scheme.

Required:

Calculate the income tax payable by Penny for the tax year 2003/04. (18 marks)

- (b) Penny wishes to complete her 2003/04 tax return as soon as possible and is waiting for PAYE forms to be provided by Modern Fashions plc.

Required:

- (i) **State which form gives details of Penny's pay, tax and national insurance contributions for the year and by which date she should receive this.**
- (ii) **State which form gives details of Penny's benefits for the year and by which date she should receive this.**
- (iii) **State by which date Penny should return her tax return for the year ended 5 April 2004 to the Inland Revenue if she wishes them to calculate the income tax due.** (5 marks)

- (c) Penny's husband, Adrian, also works for Modern Fashions plc and received a salary of £38,000 for 2003/04. In addition he received a car benefit calculated as £2,400 for that year. He is not a director and did not receive any bonuses.

Required:

Calculate for both Adrian and Modern Fashions plc, the total national insurance contributions due for the tax year 2003/04. (5 marks)

- (d) Adrian owns a house, which is not his main residence and which has been let furnished to tenants for the last four years.

The annual rent payable in advance by equal monthly instalments on the 6th of each month was £7,200 until December 2003 but was increased to £7,800 per year with effect from 6 January 2004. All amounts were received on time with the exception of that due for 6 March 2004, which was not received until 2 May 2004.

Expenditure relating to the property was as follows:

Council tax	£960
Water rates	£380
Agent's fees	£780
Re-decoration costs	£1,250
New kitchen units	£2,400
Mortgage interest	£2,500

All these amounts were paid in 2003/04 by Adrian with the exception of the council tax which was the responsibility of the tenants.

The kitchen units were purchased to replace the existing out-dated units in an attempt to modernise the property.

The mortgage interest was paid in respect of a £50,000 interest only loan at 5% per annum

Required:

Calculate the amount assessable under Schedule A for the tax year 2003/04. Assume Adrian will claim wear and tear allowance. (You are not required to calculate the amount of tax payable). (5 marks)

(33 marks)

- 2 (a) Baker Productions plc owns 60% of Street Industries Ltd and 40% of Holmes Ltd. All three companies are UK resident and make up their accounts to 31 March annually.

During its accounting year ended 31 March 2004 Baker Productions plc had the following items of income and expenditure:

Income:

	£
Adjusted trading profit (before capital allowances)	262,400
Rent	24,000
Bank interest	8,000
Debenture interest	14,000
Dividend from Street Industries Ltd	9,000
Dividend from Holmes Ltd	5,400

Expenditure:

Gift aid donation to the charity, Oxfam	2,000
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Baker Productions plc had purchased its factory premises on 1 May 1998 for £140,000 from another UK company, which had purchased the factory new on 1 August 1995 for £100,000. Both companies have always used the factory for qualifying industrial purposes.

Baker Productions plc had balances brought forward as at 1 April 2003 on its plant and machinery pool and a short life asset (SLA) of £112,000 and £2,900 respectively. The only transactions affecting these amounts were the disposal of the SLA on 2 September 2003 for £3,400 and the purchase of a second-hand machine for £20,000 on 1 December 2003. The SLA sold had originally cost £6,000 in May 2001. The company is classed as medium sized for capital allowances purposes and always claims the maximum possible allowances.

In addition to the above Baker Productions plc sold an office complex, which had never been used in the business, for £180,000 in December 2003. This had originally cost £60,000 in August 1985 and had been extended at a cost of £21,000 in May 1993.

A trading loss of £9,406 and a capital loss of £10,500 were brought forward as at 1 April 2003.

Required:

- (i) Calculate the total capital allowances for plant and machinery and the total industrial buildings allowance (IBA) for Baker Productions plc in respect of the year ended 31 March 2004; (6 marks)
- (ii) Calculate the corporation tax payable by Baker Productions plc for the year ended 31 March 2004. (13 marks)

Note: The indexation factors to be used in this question are in the table of rates and allowances.

(b) City Merchandise Ltd prepares value added tax (VAT) returns on a quarterly basis. It does not operate the cash accounting scheme. During the company's quarter ended 31 March 2004 the following transactions occurred:

Standard rated sales	£110,000
Zero-rated sales	£30,000
Standard rated purchases	£60,000

The above three amounts are stated exclusive of VAT where applicable.

The company offers a 5% discount to customers who pay within 30 days. This discount is offered on all sales but only 50% of customers settle within the discount period.

The company also paid the following expenses during the same VAT quarter:

Electricity	£4,000
Wages	£28,000
Accountancy fees	£1,000
Machine repairs	£2,500

The above four amounts are stated inclusive of VAT where applicable.

Required:

Calculate the VAT due for the quarter ended 31 March 2004 and state by when this amount must be paid.

(6 marks)

(25 marks)

- 3 (a)** Bobby Jenkins is 44 years old and has taxable income of £28,420 (after deduction of his personal allowance) for the tax year 2003/04.

During the tax year 2003/04 Bobby disposed of the following assets:

18 May 2003: An antique vase was sold for £8,450 net of expenses of sale amounting to £550. The vase had cost £3,200 in June 1999.

21 October 2003: 2000 shares in ABC Ltd were sold for £15,400. Bobby had originally purchased 2,400 shares for £8,100 in May 1998. ABC Ltd had made a 1 for 4 rights issue for £4.50 each in September 2000. Bobby had purchased his full rights entitlement.

19 November 2003: A silver necklace was sold for £2,000. It had originally been purchased in January 1999 for £7,500 when it was thought to have originated from a much earlier period than it actually did.

2 March 2004: A watercolour painting was sold for £24,000. This had cost £8,000 in February 1986 and had an indexed cost of £13,460 in April 1998.

The shares in ABC Ltd were classed as a business asset, the other three assets were all non-business assets.

Required:

Calculate the capital gains tax (CGT) payable by Bobby for the tax year 2003/04 and state when this is due for payment. (16 marks)

- (b)** Louise Duncan has for several years run a very successful business as a sole trader. During the next few months she intends to sell some of her business assets and to re-invest in other assets, some of which will have an expected useful life of 40 years and some of 70 years.

She understands that a relief may be available which would defer any capital gains that may otherwise be chargeable as a result of the above disposals and has asked you for advice.

Required:

Write to Louise stating the relief available, how it affects any replacement assets and outlining the conditions which must be fulfilled for the relief to be claimed.

(Use fictitious addresses in your letter. Marks will be awarded for the style and presentation of your answer). (12 marks)

(28 marks)

- 4 Amanda Cooke started in business as a self-employed clothes designer on 1 December 2000. She made up her first set of accounts to 31 May 2001 and annually thereafter. Her first two sets of adjusted Schedule D Case I profits after capital allowances were:

Period ended 31 May 2001	£4,260
Year ended 31 May 2002	£8,190

During her accounting year ended 31 May 2003 Amanda had the following results:

	£	£
Turnover		18,000
Cost of goods sold		(7,300)
Gross profit		<u>10,700</u>
Discounts received		300
Bank interest received		450
		<u>11,450</u>
Electricity	810	
Accountant's fees	280	
Depreciation	120	
Drawings	640	
Car expenses	<u>1,840</u>	<u>(3,690)</u>
Net profit		<u><u>£7,760</u></u>

Amanda works from home and 40% of the electricity cost relates to personal use.

Her car was purchased new in 1998 for £12,000 and had a value of £6,400 when it was introduced into the business on 1 December 2000. She uses the car 60% for business purposes.

Amanda's only other asset is a sewing machine, which had a written down tax value for capital allowance purposes of £240 on 1 June 2002.

Required:

- (a) Calculate the maximum capital allowances that Amanda may claim for the year ended 31 May 2003. (3 marks)
- (b) Calculate the adjusted Schedule D Case I profits after capital allowances for the year ended 31 May 2003. (4 marks)
- (c) Calculate the assessable Schedule D Case I profits for the four tax years 2000/01 to 2003/04 inclusive. (5 marks)
- (d) Calculate the overlap profits for the opening years of assessment. (2 marks)

(14 marks)

End of Question Paper