

# Preparing Taxation Computations

(UK Stream)

ACCA CERTIFIED ACCOUNTING TECHNICIAN EXAMINATION

ADVANCED LEVEL

TUESDAY 13 DECEMBER 2005

## 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)



**This is a blank page.  
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–£2,020	10%
Basic rate	£2,021–£31,400	22%
Higher rate	£31,401 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	£ 4,745
--------------------	------------

#### Company car benefit

The base level of CO<sub>2</sub> emissions is 145 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 to 45	20
46 to 50	25
51 to 55	30
56 to 60	35
61 or more	40

Subject to an earnings cap of £102,000

#### 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 (CO <sub>2</sub> emissions of less than 120 grams per kilometre)	100

For small businesses only: the rate of plant and machinery first-year allowance was increased to 50% for the period from 1 April 2004 to 31 March 2005 (6 April 2004 to 5 April 2005 for unincorporated businesses).

Industrial buildings	
Writing down allowance	4

### Corporation tax

Financial year	2003	2004
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

From 1 April 2004 profits paid out as dividends are subject to a minimum rate of corporation tax of 19%.

### Marginal relief

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

### Value added tax

	£
Registration limit	58,000
Deregistration limit	56,000

### Capital gains tax: annual exemption

Individuals	£8,200
-------------	--------

### 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

### National insurance contributions (not contracted-out rates)

		%
Class 1 employee	£1–£4,745 per year	Nil
	£4,746–£31,720 per year	11·0
	£31,721 and above per year	1·0
Class 1 employer	£1–£4,745 per year	Nil
	£4,746 and above per year	12·8
Class 1A		12·8
Class 2	£2·05 p.w.	
Class 4	£1–£4,745 per year	Nil
	£4,746–£31,720 per year	8·0
	£31,721 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** Your name is Harry Knowles and you work as a tax technician for a small tax partnership, Pay and Payne. Your firm has just taken on three new clients: Newco Ltd and two individuals both of whom work for Newco Ltd. Your line manager has asked you to deal with the following queries, one from each of the new clients.

- (a)** Newco Ltd is a recently formed company and is due to make up its first set of accounts for the period 1 April 2004 to 31 March 2005. It is aware of the need to complete certain forms as part of the end of year pay as you earn (PAYE) procedures in respect of its employees.

**Required:**

**Write a letter to the Board of Directors of Newco Ltd, giving details of the year end forms required to be completed under the PAYE procedures and stating by what date(s) these forms need to be submitted to the Revenue.**

**For the purpose of this part of the question, assume that today's date is 1 March 2005.**

Marks will be awarded for the style and presentation of your answer. (8 marks)

- (b)** Sami Jenkins, an employee of Newco Ltd, has asked for help in calculating the value of the benefits she is receiving from Newco Ltd. She has provided the following information regarding the benefits received during the tax year 2004–05:

- (i) A loan to help her purchase a new home. Newco Ltd advanced £25,000 on 6 June 2004 at an interest rate of 2% per year. Sami repaid £10,000 on 6 December 2004. The remaining £15,000 was still outstanding on 5 April 2005.
- (ii) During the year Newco Ltd paid £3,500 into Sami's personal pension plan.
- (iii) Assistance with relocation costs from the Newco Ltd office in Manchester to the Newco Ltd office in Winchester (a distance of 210 miles), totalling £9,500.
- (iv) Private medical insurance cover, which had an annual cost to the company of £560. If Sami had arranged this cover herself it would have cost her £750.
- (v) Workplace parking costing £400.

Sami earns a salary of £28,000 per year.

**Required:**

**Calculate the total value of Sami's benefits to be assessed to income tax for the tax year 2004-05. Clearly identify any benefits which are exempt from tax and, where applicable, include any alternative calculations in full as part of your workings.** (9 marks)

- (c)** Jenny Smith, another employee of Newco Ltd, who returned to the UK at the end of April 2004, having spent the previous six months on holiday overseas, has asked you to calculate her income tax payable for the tax year 2004–05. She has provided the following information:

- (i) She started work with Newco Ltd on 1 May 2004 with an annual salary of £32,700. She received a salary increase of 4% from 1 January 2005.
- (ii) A Christmas bonus of £2,000 was received in December 2004 and an end of year bonus of £1,500 in respect of the company's year 1 April 2004 to 31 March 2005 was received in May 2005.
- (iii) A taxable benefit of £2,400 has been calculated for the private use of a car provided to her by the company
- (iv) UK dividends of £1,800 (cash amount) were received in January 2005.
- (v) Net bank interest of £480 was received in December 2004.
- (vi) Premium bond prizes of £250 and £50 were received in May 2004 and November 2004 respectively.

- (vii) An amount of £234 was paid to a registered UK charity under the gift aid scheme in November 2004
- (viii) Newco Ltd deducted income tax under PAYE totalling £5,820 from Jenny's earnings.
- (ix) A UK property was rented out fully furnished at a monthly rent of £400 from 1 July 2004. The full amount of rent due has been received during 2004-05. Expenses consisted of:

Water rates (for the period 1 April 2004 to 31 March 2005)	£240
Repairs to property in January 2005	£640
Insurance (for the period 1 April 2004 to 31 March 2005)	£360
Agent's fees	£510
Cost of new kitchen units	£1,800

The property was not available for letting prior to 1 July 2004.

Jenny intends to claim any allowances available.

**Required:**

**Calculate the income tax payable by Jenny for the tax year 2004–05.**

(18 marks)

**(35 marks)**

2 (a) Red Ltd is a UK resident company with no associates. Red Ltd has always made up accounts to 31 October.

During the year to 31 October 2004 the company had the following transactions in capital items:

Purchases:

4 November 2003	Plant costing £8,000
2 May 2004	Plant costing £18,000
8 June 2004	Car (A) costing £20,000
12 July 2004	Car (B) in part exchange (see details below)

Disposals:

3 March 2004	Plant for £8,000 (original cost £7,000)
12 July 2004	Car (C) in part exchange (see details below)
14 August 2004	Car (D) for £3,000 (original cost £14,000)

Car (A) purchased in June 2004 will be used 40% for business use and 60% for private use by the Finance Director of the company.

Car (C), which had cost £9,000 in September 2002, was traded in against the purchase of car (B). The trade in value was £4,000 and the new car (B) was worth £11,000. The company paid the additional amount in cash. Car (B) is used 100% for business purposes.

None of the cars are low emission vehicles.

The tax written down value of the general pool of plant and machinery for capital allowance purposes as at 1 November 2003 was £46,000 and the tax written down value of car (D), an expensive car, at the same date was £8,000.

The company is classed as small for capital allowance purposes.

**Required:**

**Calculate the maximum capital allowances that Red Ltd can claim for the year ended 31 October 2004.**

(10 marks)

(b) Blue Ltd is a UK resident company with no associates. The company has recently changed its accounting year-end to September. The company has had the following results for the four accounting periods ending 30 September 2004:

	Year to 31 December 2001	9 months to 30 September 2002	Year to 30 September 2003	Year to 30 September 2004
	£	£	£	£
Schedule D Case I profit	70,000	80,000	–	40,000
Schedule D Case I loss	–	–	(180,000)	–
Schedule A	12,000	9,000	12,000	12,000
Chargeable gain	–	10,000	–	–
Gift aid payment	(2,000)	(2,000)	(2,000)	(2,000)

**Required:**

(i) **Calculate the profit chargeable to corporation tax (PCTCT) for each of the above periods on the assumption that Blue Ltd claims relief for the trading loss at the earliest opportunity.** (8 marks)

(ii) **State the amounts of any unrelieved losses and/or charges carried forward as at 30 September 2004.** (2 marks)



- (c) Green Ltd is a UK resident company with one 100% owned associate. The company had the following results for the year ended 31 March 2005:

Income:

	£
Adjusted Schedule D Case I profit	980,000
Debenture interest received (note 1)	7,500
Chargeable gain	85,000
UK dividends received (not from the associate)	27,000

Expenditure:

Bank interest paid (note 2)	3,000
Gift aid payment	4,000

Notes:

1. The debenture interest received was in respect of £100,000 debentures purchased on 16 May 2002 at an interest rate of 10%. The amount of the debenture interest outstanding at 31 March 2005 will be received in April 2005.
2. The bank interest paid is the full amount due on a loan used to purchase investments.

**Required:**

**Calculate the corporation tax payable by Green Ltd for the year ended 31 March 2005.**

(6 marks)

**(26 marks)**

3 (a) Nigel Hawksworth made the following disposals of capital items in the tax year 2004–05:

14 May 2004: An antique vase was sold for £5,400. The vase had originally cost £3,600 in September 2002.

16 October 2004: A house, which had never been used as Nigel's main residence, was sold for £240,000. The house had originally been purchased in July 1990 for £110,000. The indexed cost of the house on 6 April 1998 was £140,000.

9 January 2005: 3,500 shares in ABC plc were sold for £9,800. Nigel had purchased ABC plc shares at the following times:

May 2002	1,000 shares costing £1,600
August 2003	2,000 shares costing £3,600
May 2004	1 for 2 rights issue taken up, costing £2.20 per share

None of the above assets were classed as business assets.

**Required:**

**Calculate Nigel's total chargeable gains (before the annual exemption) for the tax year 2004–05.**

(10 marks)

(b) Nigel's brother John also made chargeable gains in the tax year 2004–05. His gains (before taper relief) were:

£12,000 in respect of a non-business asset owned for five complete years

£14,000 in respect of a business asset owned for three complete years

£3,000 in respect of a non-business asset owned for four complete years

John also made an allowable capital loss of £5,000 on the sale of a fourth asset in the tax year 2004–05.

John's taxable income (after his personal allowance) for income tax purposes was £28,500 for the tax year 2004–05.

**Required:**

**Calculate the capital gains tax payable by John for the tax year 2004–05.**

(7 marks)

(c) Nigel's sister, Pamela, has her own pottery business. On 1 September 2004 she sold a shop for £80,000, which had cost her £42,000 on 1 May 1999.

In June 2004 she had purchased a new shop for £72,000.

Both shops were used 100% for business purposes.

**Required:**

**On the assumption that Pamela always claims any reliefs available:**

(i) calculate her chargeable gain (before the annual exemption) on the disposal of the old shop; and

(4 marks)

(ii) state the base cost of the replacement shop for capital gains tax purposes.

(1 mark)

**(22 marks)**

**This is a blank page.  
Question 4 begins on page 12.**

- 4 (a) Imogen Tombay runs a small sole trader business and is registered for VAT. During the three month period ended 31 October 2004 Imogen carried out the following transactions:

Purchases:

	£
Stock (exclusive of VAT)	42,000
Sales (exclusive of VAT where applicable):	
Standard rated	98,000
Zero-rated	24,000

Expenses (inclusive of VAT where applicable):

Wages	8,000
Electricity	1,100
Accounting fees	500
Computer expenses	140

All sales are made with an offer of a 5% discount if settled within 21 days. Only 80% of sales are actually settled within this period.

Imogen wrote off two trade bad debts during the period. One for £300 was due to be paid on 2 January 2004 and the other for £400 was due to be paid on 18 July 2004. Both figures are stated exclusive of VAT.

Imogen does not use either the flat rate scheme or the cash accounting scheme.

**Required:**

**Calculate the VAT payable or reclaimable by Imogen for the three-month period ended 31 October 2004, stating by when the VAT return must be submitted.** (8 marks)

- (b) Imogen's sister Freda is also a sole trader and makes her accounts up to 31 March annually. Her profit and loss account for the year ended 31 March 2005 was as follows:

	£	£
Gross profit		260,000
Bank interest received		7,500
Expenses:		
Wages (Note 1)	32,000	
Electricity (Note 2)	2,400	
Rent	1,600	
Computer expenses (Note 3)	860	
Insurance (Note 2)	540	
Drawings by Freda	34,500	
Accounting fees	500	(72,400)
Net profit		<u>£195,100</u>

Notes:

1. The wages figure includes £8,500 for Freda's son who worked only three hours a week for the whole of the year ended 31 March 2005. The normal rate for these duties is £5 per hour.
2. The electricity and insurance both include private use of 20%.
3. Freda uses the computer at home for private work and estimates this to be 25% of the total usage.
4. Freda's capital allowances claim for the year is £2,500.

**Required:**

**Calculate Freda's adjusted Schedule D Case I profit for the year ended 31 March 2005.** (6 marks)

- (c) Imogen's brother Sebastian has previously run a sole trader business but due to falling profits decided to cease trading on 31 March 2005. His adjusted profits for his final three accounting periods were as follows:

Year to 31 October 2003	£12,000
Year to 31 October 2004	£8,000
5 months to 31 March 2005	£3,000

Unused overlap profits from the opening years of his business amounted to £6,000.

**Required:**

**Calculate Sebastian's Schedule D Case I assessments for all of the tax years affected by the above results.**  
(3 marks)

**(17 marks)**

**End of Question Paper**