

Preparing Taxation Computations

(UK Stream)

ACCA CERTIFIED ACCOUNTING TECHNICIAN EXAMINATION

ADVANCED LEVEL

TUESDAY 14 JUNE 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)



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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–£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
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Company car benefit

Base level for CO₂ emissions: 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
36–45	20
46–50	25
51–55	30
56–60	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	100

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

Industrial buildings	
Writing down allowance	4

Corporation tax

Financial year	2004	2003
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	58,000
Deregistration limit	56,000

Capital gains tax: annual exemption

Individuals	£8,200
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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

**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 (a) Ravi Patel is a computer expert working for a UK resident company receiving an annual salary of £39,000.

During the tax year 2004–05 Ravi received the following benefits:

- The use of a company owned apartment. This had cost the company £160,000 in May 2003 and has been occupied by Ravi since that date. The apartment has an annual rateable value of £4,100 and Ravi pays the company £2,500 per year for its use. The occupation of the apartment is not regarded as job-related.
- Furniture, valued at £12,000, is provided for use in the apartment. During 2004–05 the company paid decorating bills of £550 and wages to a cleaner amounting to £1,500.
- A 2.0 litre diesel BMW car, with a CO₂ emission rate of 209g per km and a recommended list price of £26,500. This was first provided for Ravi's use in July 2003. Accessories amounting to £800 were added when the car was first provided. Ravi contributed £4,000 towards the capital cost of the car. The car is used 20% for business use and 80% for private use. The company pays for all the fuel but Ravi contributes £40 per month towards this cost.

In addition to the above the company also paid £750 to the local golf club in respect of Ravi's 2004–05 membership and refunded £1,325 to Ravi in respect of actual business expenses incurred whilst he was away on official trips.

Ravi had agreed with the company that it would deduct £20 a month during the whole of 2004–05 in respect of charitable payments under the payroll deduction scheme.

Ravi paid £234 (net) per month to a private pension plan. In February 2005 he paid an additional lump sum of £2,340 (net) to the same plan. In December 2004 he paid £180 fees to an Inland Revenue approved professional body related to his employment.

Ravi paid tax of £7,808 under the PAYE system for 2004–05.

In addition to the above Ravi received the following income during 2004–05:

- Bank interest of £240
- Building society interest of £190
- Dividends from shares held in UK companies amounting to £280
- Dividends from investments held in an Individual Savings Account (ISA) amounting to £145.

The above amounts are all stated at the cash amounts received.

Required:

Calculate the income tax payable by Ravi for the tax year 2004–05. (23 marks)

(b) Ravi's wife, Neha, started her own business on 1 October 2002. Her first sets of adjusted profits after capital allowances were:

Period to 30 April 2003	£8,680
Year to 30 April 2004	£18,720
Year to 30 April 2005	£22,080

Required:

(i) Calculate Neha's Schedule D Case I profits for her first three years of assessment. You are not required to calculate any overlap profit. (5 marks)

(ii) Calculate Neha's total national insurance contributions for 2004–05. (3 marks)

(iii) State when the income tax for 2004–05 will be paid and how each payment will be calculated. You are not required to calculate the actual amount of each payment. (3 marks)

(34 marks)

- 2 (a) Thompson Brothers Ltd is a UK resident company with no associated companies. Up to 2004 the company had always made up its accounts to 31 March annually but because of new accounting policies the company decided to change its accounting date to 31 December.

The adjusted trading profit before capital allowances for the 9-month period ended 31 December 2004 was £256,663

Other income and expenditure received and paid in the same period was:

Income:

Dividends from UK companies	£18,000
Rental income (note 1)	£10,000
Debenture interest (note 2)	£3,000
Capital profit (note 3)	£26,000

Expenditure:

Interest for late payment of tax	£2,000
Gift aid payment to a UK registered charity	£7,000

Notes:

- 1 The rent was received in two equal amounts on 1 April 2004 and 1 October 2004 and was in each case in respect of the following six months.
- 2 Debenture interest is received six monthly on 31 March and 30 September each year and is in respect of a holding of £120,000 5% Loan Stock.
- 3 The profit shown is in respect of an unused office block purchased for £60,000 in December 2003 and sold for £86,000 in October 2004. (Indexation factor December 2003 – October 2004: 0.028).

A capital loss of £4,000 was brought forward as at 1 April 2004.

The company purchased a new factory in September 2004 for £150,000, which included £30,000 for land. The company has not claimed rollover relief.

The tax written down value on the company's plant and machinery pool as at 1 April 2004 was £140,000. During the period ended 31 December 2004 the company purchased plant for £80,000 and a new car (which is not a low emission car) for one of the directors private use at a cost of £22,000. An old machine, which had originally cost £28,000, was sold for £23,000 in November 2004.

The company is classified as medium sized for capital allowances purposes.

Required:

- (i) Calculate Thompson Brothers Ltd's total capital allowances for both plant and machinery and industrial buildings for the nine-month period ended 31 December 2004. (7 marks)
 - (ii) Calculate the corporation tax payable by Thompson Brothers Ltd for the nine-month period ended 31 December 2004. (11 marks)
- (b) Parker plc is a large UK resident company. In its accounting year ended 31 March 2005 it had estimated its profits chargeable to corporation tax (PCTCT) to be £1,600,000. The company had PCTCT amounting to £1,800,000 in the year to 31 March 2004.

Required:

In respect of the chargeable accounting period ended 31 March 2005.

- (i) Calculate the corporation tax payable. (1 mark)
- (ii) State the due dates of payment of the tax and the amount of each of those payments. (4 marks)

(23 marks)

3 (a) Fiona Banks is a UK resident and had the following transactions in capital items during 2004–05:

14 June 2004 – Sold a factory for £228,000. This had originally been purchased in May 1993 for £120,000 and had been enlarged at a cost of £35,000 in August 2001. The indexed cost of the factory on 6 April 1998 was £138,240. The factory has always been used as a business asset.

11 November 2004 – Sold a painting for £9,870. Auctioneer’s fees of 10% were payable on this amount. The painting had been purchased in June 1998 for £2,500. It has never been used as a business asset.

Fiona had unused capital losses brought forward on 6 April 2004 amounting to £3,400.

Fiona’s statutory total income (STI) for 2004–05 was £33,570.

Required:

Calculate the capital gains tax payable by Fiona for the tax year 2004–05. (10 marks)

(b) Jane Bush purchased a non-business asset in September 1999 for £18,000. It was destroyed by a flash flood in November 2004. Jane replaced the asset in March 2005 at a cost of £28,000 having received £29,500 compensation from an insurance company.

Required:

(i) **Calculate the chargeable gain arising in 2004–05** (3 marks)

(ii) **State the base cost of the replacement asset.** (1 mark)

(c) Peter Stone purchased his main residence on 1 July 1984 for £54,500. He moved into the property immediately and occupied it until he moved abroad to take up employment on 1 September 1986. He returned to the UK and reoccupied the property on 1 May 1991. He remained in the property until 1 January 1992 when he moved to another UK city on a temporary work secondment. On 1 January 1997 he returned to the property. On the 1 March 1999 he moved to his parents home to take care of his sick mother. The property was finally sold on 1 July 2004. Peter never returned to the property after 1 March 1999.

Required:

Using a tabular format state, giving reasons in each case, the deemed and actual periods of occupation and the periods of non-occupation of the property. (8 marks)

(22 marks)

- 4 (a) Susan Chance runs a small business from home which she commenced in 1996. Her recent adjusted trading results (after capital allowances) have been;

Year ended 31 December 2002	£12,500
Year ended 31 December 2003	£(15,000) loss
Year ended 31 December 2004	£3,400

Susan had other income of £8,000 in 2002-03, £4,000 in 2003-04 and £26,000 in 2004-05.

She has written to you asking for advice on the use of the 2003 trading loss.

Required:

Write a letter to Susan, using any fictitious addresses, advising her on the use of the loss. Your letter should provide details of:

- the years in which the loss can be used;
- the income it can be used against; and
- three planning points to consider when deciding which claim to make.

(Note you are not required to make a final decision or to show any calculations).

(8 marks)

Presentation (2 marks)

- (b) Monty Finch has been trading for the last three years. His annual sales have recently exceeded the VAT threshold of £58,000 but he has failed to notify Customs and Excise.

Required:

State the amount(s) of late notification penalty that could be applied.

(5 marks)

- (c) Bob Hawkes operates a jewellery business and is registered for VAT. He received an order for a silver and diamond necklace on 14 May 2004. A deposit of £350 was received with the order. The order was completed and delivered on 16 July 2004. An invoice was raised and despatched on 20 July 2004 and the final (balancing) payment was received on 31 August 2004.

Bob does not operate the cash accounting scheme.

Required:

State how the tax point for VAT purposes is determined and the date(s) which will apply in this case.

(6 marks)

(21 marks)

End of Question Paper