Answers

Marks

1 (a) Simon – Income tax payable 2005–06

	Total	Non-savings Income	Savings	Dividend	
	£	£	£	£	
Salary	70,000				0·5
Bonus	11,500				0·5
Benefits (see workings)	15,693				12·5
	97,193				
Occupational pension (5% x £70,000)	(3,500)				1
Professional fees	(210)				0·5
Employment income	93,483	93,483			
Bank interest (£3,600 x 100/80)	4,500		4,500		1
Dividends (£900 x 100/90)	1,000			1,000	1
ISA dividend – exempt					0·5
Statutory total income	98,983	93,483	4,500	1,000	
Personal allowance	(4,895)	(4,895)			0·5
	£94,088	£88,588	£4,500	£1,000	

Extension of basic rate band: £32,400 + (£312 x 100/78) = £32,800 1

Tax payable:

	£		£	
1st	2,090 x 10%		209	0·5
Next	30,710 x 22%		6,756	0·5
	32,800			
Next	55,788 x 40%		22,315	0·5
	88,588			
Savings	4,500 x 40%		1,800	0·5
Dividend	1,000 x 32·5%		325	0·5
			31,405	
Less tax deducted at source:				
Savings (20%)		900		0·5
Dividend (10%)		100		0·5
PAYE		23,150	(24,150)	0·5
Tax payable			£7,255	**23**

Workings – benefits

		£	Total £	
Car	CO_2 emission	198		
	Base figure	(140)		
		58		0·5
	Divided by 5 and rounded down	11		1
	Starting percentage	15		0·5
	Final percentage	26		
	List price (£28,000 + £6,000)	£34,000		1
	Benefit £34,000 x 26% x 9/12	£6,630	6,630	1
Fuel	£14,400 x 26% x 9/12	£2,808	2,808	1

		£		Marks
House	The house is more than six years old when Simon first occupied it, therefore the market value at occupation is used.			
	Rateable value	8,000		0·5
	Additional:			
	(£250,000 – £75,000) x 5%	8,750		1.5
		16,750		
	6 months only -– 6/12 x £16,750	8,375		0·5
	Less contribution	(3,600)		0·5
		£4,775	4,775	
Furniture	£10,000 x 20% x 6/12	£1,000	1,000	1
Parking	Exempt			1
Expenses	UK trips – exempt level is £5 per night. As payment is above this the full amount is taxable.			
	£6 x 80	£480	480	1·5
	Overseas trips – exempt level is £10 per night. Therefore the full amount is exempt.			1
	Total benefits		£15,693	
			sub total to page fifteen	**12·5**

(b)

Tax Advisors
London
12 December 2006
Reference: XXX

Simon
12 Street
London

Dear Sir

Furnished Holiday Letting

Thank you for your recent letter asking for information on the tax position regarding furnished holiday lettings.

To qualify as a furnished holiday letting (FHL) a property must fulfil the following conditions:

The property must be let furnished on a commercial basis with a view to the realisation of profit 1
During the relevant period the property must be available for letting for at least 140 days 1
During the relevant period the property must actually be let for at least 70 days 1
During the relevant period, the same tenant may not occupy the property for more than 31 days for a total period comprising of no more than 155 days 1

The relevant period is normally the tax year but if the period of letting starts or ceases in a tax year the relevant period is the twelve months beginning or ceasing with the first or last days of the letting period. 1

The tax advantages of a property being treated as a FHL are:

Relief is given for losses as if they were trading losses, thereby allowing relief against other income 1
Capital allowances on furniture will be available instead of the 10% wear and tear allowance 1
The income qualifies as net relevant earnings for personal pension contributions 1
The property is a business asset and therefore capital gains tax reliefs are available on disposal 1

If I can be of further assistance please do not hesitate to contact me on the above number.

Yours faithfully

A Technician

Presentation	2
	11
Total	**34**

Marks

2 (a) (i) Broad Ltd – Adjusted trade profit – year ended 31 March 2006

	£	£	Marks
Net profit per accounts		1,240,000	0·5
Less:			
UK dividends	18,000		0·5
Interest	4,300		0·5
Capital profit	84,000	(106,300)	0·5
		1,133,700	
add back:			
Gift aid payment	10,000		0·5
Legal fees (lease)	8,000	18,000	0·5
		1,151,700	
less capital allowances (£328,000 x 25%)		(82,000)	1
Adjusted trade profit		£1,069,700	
Items not adjusted (0·5 for each of the four items)			2
			6

(ii) Broad Ltd – Corporation tax for the year ended 31 March 2006

	£	£	Marks
Adjusted trade profit		1,069,700	0·5
Investment income		4,300	0·5
Capital gain (w1)	70,504		
less loss brought forward	(18,000)	52,504	1
		1,126,504	
Charge on income:			
Gift aid		(10,000)	0·5
Profit chargeable to corporation tax		1,116,504	
Franked investment income (£18,000 x 100/90)		20,000	1
Profits		£1,136,504	

Thresholds divided by two (associated companies):

		Marks
£1,500,000/2 =	£750,000	
£300,000/2 =	£150,000	1

Broad Ltd must therefore pay tax at the full rate of 30%

		Marks
Tax payable: £1,116,504 x 30%	£334,951	1

Working:

Gain:

	£	Marks
Proceeds	140,000	
Cost	(56,000)	0·5
	84,000	
Indexation allowance		
0·241 x £56,000	(13,496)	1
	£70,504	**7**

(iii) Broad Ltd – payment of corporation tax

Broad Ltd is a large company and must therefore pay tax using the quarterly payment system.

£334,951/4 = £83,738

			Marks
7th month	14 October 2005	£83,738	1
10th month	14 January 2006	£83,738	1
13th month	14 April 2006	£83,738	1
16th month	14 July 2006	£83,738	1
			4

		Marks
(iv)	The return is due 12 months from the end of the accounting period i.e. 31 March 2007	1
(v)	Records must be kept six years after the end of the accounting period i.e. 31 March 2012	1

(b) Blocked VAT

VAT is blocked and therefore can not be recovered on the following items:

(1) Motor cars not used 100% for business purposes
(2) Business entertainment
(3) Expenses incurred on domestic accommodation for directors
(4) Non business items passed through the accounts

		Marks
		4
	Total	**23**

3 (a) (i) **Patrick – Capital gains tax for the tax year 2005–06**

				Marks
Gains				
Shares:	Shares must be matched as follows:			
	Those purchased in the next 30 days i.e.		24 May 2005	
	Those purchased since 5 April 1998 on a LIFO basis i.e.		22 September 2004	
			19 August 2000	
	Shares in FA85 pool			1
			£	
May 2005	Proceeds	$\frac{1,000}{6,000}$ x £23,400	3,900	
	Cost		(4,400)	
			£(500)	1·5
September 2004	Proceeds	$\frac{2,000}{6,000}$ x £23,400	7,800	
	Cost		(4,900)	
			2,900	1·5
	No taper relief: < 1 year			
August 2000	Proceeds	$\frac{1,000}{6,000}$ x £23,400	3,900	
	Cost		(1,600)	
			2,300	1·5
	Taper relief 4 years: 90%			
FA 85 pool	Proceeds	$\frac{2,000}{6,000}$ x £23,400	7,800	
	Cost	$\frac{2,000}{4,000}$ x £8,670	(4,335)	
			£3,465	2
	Taper relief 8 years (including the bonus year): 70%			
Painting:	Chattel sold at a loss for less than £6,000			
	Deemed proceeds		6,000	
	Cost		(6,500)	
			£(500)	1·5
Building	Proceeds		160,000	
	Indexed cost		(92,170)	
	Extension		(19,000)	
			£48,830	2
	Taper relief 8 years (including the bonus year): 70%			

Summary of gains *Marks*

Losses taken from gains with the least taper relief entitlement

Gain	Losses	Net of losses	Taper %	Net of taper relief	Marks
£	£	£		£	
2,900	(1,000)	1,900	nil	1,900	1
2,300		2,300	90	2,070	1
3,465		3,465	70	2,425	1
48,830		48,830	70	34,181	1
				40,576	
		Annual exemption		(8,500)	
				£32,076	1

Tax payable:

Basic band remaining is (£32,400 – £30,400) = £2,000 1

		Marks
£2,000 x 20%	400	0·5
(£32,076 – £2,000) x 40%	12,030	0·5
	£12,430	
		18

(ii) Due date of payment: 31 January 2007 **1**

(b) (i) Patricia – Chargeable gain 2005-06

	Workshop	Goodwill	Marks
	£	£	
Proceeds	160,000	80,000	
Cost	(40,000)		
	£120,000	£80,000	1
Total gains	200,000		1
Amount not reinvested	(30,000)		
Rolled over gain	£170,000		1 1
Chargeable now	£30,000		
Net of taper relief		£7,500	1
(75%: Business asset held > 2 years)			**5**

(ii) Base cost of asset

		Marks
Market value	210,000	
Rolled over	(170,000)	
	£40,000	**1**

Total **25**

4 (a) **Norman – Industrial buildings allowance** *Marks*

	£	Marks
Allowable cost:		
Groundwork	27,000	0·5
Drawing office	10,000	0·5
Factory	90,000	0·5
Legal fees	5,000	0·5
Administration office	8,000*	
	£140,000	

Land is not an allowable cost 1

* $\frac{8,000}{140,000}$ x 100 = 5·71% (less than 25%) 1

Year ended

	Cost £	IBA £	Marks
31 March 1997	140,000		
WDA – 4%	(5,600)	£5,600	1
	134,400		
31 March 1998 to 31 March 2005			
WDA – 4% x 8 years	(44,800)	£44,800	1
	89,600		
31 March 2006			
Proceeds	(130,000)		1
Balancing charge	(40,400)		
	40,400	£(40,400)	1
	nil		
			8

(b) **Norman – Due dates of payment**

Payment on accounts (POA) are due for 2005-06 based on the amount paid in 2004–05.

1st POA	31 January 2006	50% x £8,600	£4,300	2
2nd POA	31 July 2006	50% x £8,600	£4,300	2
Balance	31 January 2007	(£10,400 – £8,600)	£1,800	2
			£10,400	
				6

(c) **Norman – National insurance contributions**

Norman must pay class 2 and class 4 national insurance contributions

	£	£	Marks
Class 2: £52 weeks x £2·10		109	1
Class 4: 1st £4,895	nil		0·5
Next (£32,760 – £4,895) x 8%	2,229		1
Remainder (£42,000 – £32,760) x 1%	92	2,321	1
		£2,430	0·5
			4
		Total	**18**