Preparing Taxation Computations

(UK Stream)

ACCA CERTIFIED ACCOUNTING TECHNICIAN EXAMINATION

ADVANCED LEVEL

TUESDAY 12 DECEMBER 2006

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

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

Starting rate	£1–£2,090	10%
Basic rate	£2,091–£32,400	22%
Higher rate	£32,401 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	4,895

Company car benefit

The base level of CO_2 emissions is 140 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 £105,600

Official Rate of Interest

5%

Capital allowances

		%
Plant and machinery		
Writing down allowance		25
First year allowance	– plant and machinery	40
	– low emission motor cars (CO_2 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 and 5 April 2005 for unincorporated businesses).

	%
Industrial buildings	
Writing down allowance	4

Corporation tax

Financial year	2004	2005
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 rate lower limit	£300,000	£300,000
Small companies rate 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) x I/P x marginal relief fraction

Value added tax

	£
Registration limit	60,000
Deregistration limit	58,000

Capital gains tax: annual exemption

Individuals	£8,500

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–£4,895 per year	Nil
	£4,896–£32,760 per year	11·0
	£32,761 and above per year	1·0
Class 1 employer	£1–£4,895 per year	Nil
	£4,896 and above per year	12·8
Class 1A		12·8
Class 2	£2·10 per week	
Class 4	£1–£4,895 per year	Nil
	£4,896–£32,760 per year	8·0
	£32,761 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) Simon was born on 14 May 1954 and is a manager working for Able plc, a large UK resident company.

In 2005–06 Simon received a gross salary of £70,000 and on 16 February 2006 he received a bonus of £11,500 based on Able plc's results for the year ended 31 December 2005.

In addition Simon received the following benefits in 2005–06:

– **The use of a company car.** The car was a 2000cc petrol driven Audi with a CO_2 emission rate of 198 grams per kilometre. The recommended list price was £28,000, but Able plc paid £24,000 because of a company discount scheme. Accessories to the value of £6,000 were added at the time that Simon took delivery of the vehicle, which was on 6 July 2005. The company paid for all of the running costs, including the fuel, which amounted to £4,500 for the period to 5 April 2006. Simon used the car for both business and private use. Able plc did not provide Simon with the use of any other car before 6 July 2005.

– **The use of a company owned house.** The house was used permanently by Simon and his family from 6 October 2005. The house had been purchased by the company for £120,000 in May 1998 and had a market value when Simon moved in of £250,000. The annual rateable value of the house was £8,000 and Simon paid £600 a month to the company for the use of the property. Simon paid for all of the household expenses. The house is not classed as job-related.

– **The use of furniture.** Whilst he occupied the above property the company provided Simon with the use of furniture, which had a market value of £10,000.

– **Workplace parking.** Simon was provided with a free car parking space in a public car park adjacent to his place of work. This cost the company £540 for the year ending 5 April 2006.

– **General business expenses.** Simon received an amount of £6 a day for 80 days of business trips in the UK and £9 a day for 60 days of business trips abroad. All of these trips required overnight stays away from home and the amounts paid were used to cover the costs of incidental expenses such as newspapers and telephone calls home.

Simon contributes 5% of his gross salary (excluding benefits and bonuses) into Able plc's HMRC approved occupational pension scheme every year.

In addition, Able plc deducted the following amounts from Simon's salary in 2005–06:

Income tax (PAYE)	£23,150
Class 1 national insurance contributions	£3,517

Simon's other income for 2005–06 was:

Bank interest	£3,600
Dividends from UK companies	£900
Dividends from shares held in an Individual Savings Account (ISA)	£270

All amounts shown are the actual cash amounts received or credited to the account.

Simon paid £312 (net) to a UK registered charity and a £210 annual fee to an HMRC approved relevant professional body, required for his position in the company, in 2005–06.

Required:

Calculate the income tax payable by Simon for the tax year 2005–06. (23 marks)

(b) Simon is considering purchasing a property and letting it out. He has heard that there are tax advantages if the property is treated as a furnished holiday letting and has written to you, his local tax advisor, for information.

Required:

Write a letter to Simon, using fictitious addresses, explaining the conditions, which must be met for a property to be treated as a furnished holiday let and the tax advantages this would have for Simon.

Marks will be awarded for the style and presentation of your answer. (11 marks)

(34 marks)

2 **(a)** Broad Ltd is a UK resident company. It owns 80% of Thin Ltd, another UK company. During its accounting year ended 31 March 2006 Broad Ltd made a net trading profit of £1,240,000. Included in this figure (which has not yet been adjusted for tax purposes) were:

Income:	£
UK dividends (note 1)	18,000
Bank interest (note 2)	4,300
Profit on the sale of a fixed asset (note 3)	84,000
Expenses:	
Debenture interest (note 4)	5,000
Gift aid payment to a UK registered charity	10,000
Patent royalties (note 5)	14,600
Legal fees (note 6)	10,000
Payments for loss of office (note 7)	230,000

Notes:

1. None of the dividends were received from Thin Ltd.
2. The bank interest was the total amount due for the year in respect of amounts deposited.
3. The profit on the sale of a fixed asset resulted from the sale of an office building for £140,000 in May 2005. The building had been purchased in September 1996 for £56,000. The indexation factor for the period September 1996 to May 2005 is 0.241.
4. The debenture interest represents the amount payable on an issue of £100,000 5% loan stock in 2004, used to purchase a new item of plant, which is used in the trade.
5. The patent royalties paid are in respect of trading activities.
6. The legal fees comprise £8,000 for obtaining a 60-year lease on a new factory and £2,000 for staff employment contracts.
7. The payments for loss of office are in respect of redundancy payments made to ensure the business continues. The statutory redundancy payments made totalled £120,000 and the balance of £110,000 was in respect of ex-gratia payments.
8. The balance on the general plant and machinery pool for capital allowances purposes on 1 April 2005 was £328,000. There were no purchases or disposals of plant and machinery during the year ended 31 March 2006.
9. Broad Ltd had a capital loss of £18,000 brought forward at 1 April 2005.
10. Broad Ltd has always paid corporation tax at the full rate.

Required:

(i) Calculate the trading profit adjusted for tax purposes, for Broad Ltd, for the year ended 31 March 2006; (6 marks)

(ii) Calculate the profits chargeable to corporation tax (PCTCT) and the corporation tax payable by Broad Ltd for the year ended 31 March 2006; (7 marks)

(iii) Assuming that the figure calculated in (ii) above was estimated correctly at the beginning of the year, state the due date(s) of payment and the amount due on each date, of Broad Ltd's corporation tax for the year ended 31 March 2006; (4 marks)

(iv) State the date by which Broad Ltd's self-assessment corporation tax return must be filed; (1 mark)

(v) State how long Broad Ltd must keep its corporation tax records for, for the year ended 31 March 2006, assuming that in respect of that year HMRC do not make any enquiries. (1 mark)

(b) Broad Ltd is registered for VAT.

Required:

State four types of expenditure on which the input VAT payable by a registered trader is treated as 'blocked' and therefore irrecoverable. (4 marks)

(23 marks)

3 **(a)** Patrick made the following disposals of assets in the tax year 2005-06:

19 May 2005: 6,000 shares in ABC plc were sold for proceeds of £23,400.
Patrick's record of purchases of ABC plc shares is as follows:

14 June 1997	4,000 shares for £8,400
19 August 2000	1,000 shares for £1,600
22 September 2004	2,000 shares for £4,900
24 May 2005	1,000 shares for £4,400

The indexed cost at 6 April 1998 of the shares purchased in June 1997 was £8,670.

5 August 2005: An oil painting was sold for £5,800. The oil painting had been purchased in May 1999 for £6,500.

2 December 2005: A building was sold for £160,000. The building had been purchased in August 1994 for £82,000. An extension had been added in May 1999 at a cost of £19,000. The 6 April 1998 indexed cost of the building was £92,170.

None of the above assets were business assets.

Patrick's taxable income for 2005-06 was £30,400.

Required:

(i) Calculate the capital gains tax payable by Patrick for 2005–06; (18 marks)

(ii) State the due date of payment of the capital gains tax calculated in (a)(i) above. (1 mark)

(b) Patricia sold her pottery business in October 2005 for £240,000. Her only assets had been her workshop, which had cost £40,000 in June 1999 and which had a value of £160,000 at the date of the sale, and goodwill, which had been created since the business started in 1999.

In December 2005 Patricia used £210,000 of the proceeds to purchase a retail shop, which qualifies as a business asset.

Required:

(i) Calculate Patricia's chargeable gain (before the annual exemption) for the tax year 2005–06 on the assumption that Patricia always claims any reliefs available; (5 marks)

(ii) State the base cost of the retail shop for capital gains tax purposes. (1 mark)

(25 marks)

4 (a) Norman has been in business as a sole trader since 1988. He runs his business from a small factory, which cost £175,000 on 1 October 1996. The factory had been purchased new, was taken into immediate industrial use on the day it was purchased and has been used continuously for industrial purposes ever since.

The £175,000 cost consisted of the following elements:

	£
Land	35,000
Groundwork and tunnelling	27,000
Drawing office	10,000
Administration office	8,000
Factory	90,000
Legal fees (for the factory)	5,000
	£175,000

Norman sold the factory on 31 January 2006 for total sale proceeds of £190,000, including £60,000 for the land.

Norman makes his accounts up annually to 31 March.

Required:

Calculate Norman's maximum industrial buildings allowances (IBA) for all years of entitlement including any balancing adjustment in the year of disposal. (8 marks)

(b) In the tax year 2004-05 Norman's final income tax liability was £8,600. In 2005-06 his final income tax liability is expected to be £10,400.

Required:

State the date(s) on which Norman's 2005–06 income tax liability is due and calculate the amounts which are payable on each of these date(s). (6 marks)

(c) For the tax year 2005-06 Norman had taxable trading income of £42,000.

Required:

Calculate the total national insurance contributions (NICs) payable by Norman for the tax year 2005–06. (4 marks)

(18 marks)

End of Question Paper