Answers

Marks

1 (a)

Fred – Income tax for the tax year 2005–06

	£	Non Savings £	Savings £	Dividend £	Total £	Marks
Salary – 7/12 x £36,000	21,000					1
Benefits (w1)	690					
Use of own car 2,400 x (45p – 40p)	120					1
	21,810					
Payroll giving scheme (£30 x 5)	(150)					1
Professional fee	(150)					1
Employment income		21,510			21,510	
Trading profit (w2)		27,000			27,000	
Bank interest (£600 x 100/80)			750		750	1
Building society interest (£320 x 100/80)			400		400	1
Debenture interest (£320 x 100/80)			400		400	1
ISA interest (exempt)					–	1
Dividend (£270 x 100/90)				300	300	1
Statutory total income (STI)		48,510	1,550	300	50,360	
Personal allowance		(4,895)			(4,895)	0·5
Taxable income		£43,615	£1,550	£300	£45,465	

Extension of basic rate band:
(£32,400 + £1,872 x 100/78) = £34,800 1

Tax payable	£			£	Marks
1st	2,090	x 10%		209	0·5
Next	32,710	x 22%		7,196	0·5
	34,800				
Next	8,815	x 40%		3,526	0·5
	43,615				
Savings	1,550	x 40%		620	0·5
Dividend	300	x 32·5%		97	0·5
				11,648	
Tax deducted at source:					
Bank interest (20%)			150		0·5
Building society interest(20%)			80		0·5
Debenture interest (20%)			80		0·5
Dividend (10%)			30		0·5
PAYE			3,300	(3,640)	0·5
				£8,008	

Marks

Workings

w1

			Marks
Medical cover		**£**	
Cost to company – £720 x 7/12		420	1
Luncheon vouchers			
15p a day tax free			
£1·55 – 15p x 150 days		210	1
Computer			
£4,800 x 20% x 7/12	560		1
1st £500	(500)	60	1
Total benefits		£690	

w2

			Marks
Trading profit			
2005–06 (Final year)			
£25,000 + £4,000	29,000		1·5
Overlap profit	(2,000)	£27,000	1
			22

(b) Peter – National insurance contributions – tax year 2005–06

Calculations must be based on Peter's earning period i.e. monthly.

Monthly limits:	£4,895/12 =	£408	
	£32,760/12 =	£2,730	

Peter received £2,210 for 11 months and £9,710 per one month

		Marks
Class 1 primary (Peter)	**£**	
(£2,210 – £408) x 11% x 11 months	2,180	1·5
(£2,730 – £408) x 11% x 1 month	255	1·5
(£9,710 – £2,730) x 1% x 1 month	70	1·5
	£2,505	
Class 1 secondary (Sports (UK) Ltd)		
(£2,210 – £408) x 12·8% x 11 months	2,537	1
(£9,710 – £408) x 12·8 x 1 month	1,191	1
	£3,728	
Class 1A (Sports (UK) Ltd)		
£8,000 x 12·8%	£1,024	1·5
		8

(c) Susan – Form P45 distribution

	Marks
Four copies required	1
Part 1 is sent to HMRC by the company (Sports (UK) Ltd)	1
Three parts are given to the employee (Susan)	1
One part is retained by Susan and two parts are given to her new employer (Fitness (UK) Ltd)	1
The new employer retains one part for their records and sends the other part to HMRC	1
	5
	35

Marks

2 (a) **Yellow Ltd – Capital allowances for the period ended 31 December 2005**

	FYA	General pool	Expensive car (1)	Expensive car (2)	SLA (1)	SLA (2)	Marks
	£	£	£	£	£	£	
Balances b/forward		86,000	4,500		4,000		
Purchases:							
2 May						18,000	0·5
14 June				26,000			0·5
1 September	20,000						0·5
Disposals:							
19 June		(3,000)					0·5
16 July					(2,400)		0·5
1 December			(6,000)				0·5
		83,000	(1,500)	26,000	1,600	18,000	
Balancing allowance					(1,600)		1
Balancing charge			1,500				1
WDA – 25% x 8/12		(13,833)					1
WDA – £3,000 x 8/12				(2,000)			1
FYA – 40%	(8,000)					(7,200)	2
Transfer to pool	(12,000)	12,000					0·5
Balances c/forward		£81,167	nil	£24,000	nil	£10,800	

Total allowances:

WDA	13,833	
WDA – restricted	2,000	
Balancing allowance	1,600	
FYA	15,200	
Balancing charge	(1,500)	0·5
	£31,133	**10**

(b) **Scarlet Ltd – Corporation tax computation for the periods ended 31 March 2006**

	12 months to 31 December 2005		3 months to 31 March 2006		Marks
	£		£		1
Trading profit					
£1,400,500 x 12/15	1,120,400				0·5
£1,400,500 x 3/15			280,100		0·5
Capital allowances (w1)	(180,000)		(33,750)		
Adjusted trading profit	940,400		246,350		
Property business profit (12:3)	84,000		21,000		1
Capital gain	28,000	4,000			1
Capital loss		(5,000)			0·5
Carried forward		(1,000)			0·5
	1,052,400		267,350		
Gift aid			(8,000)		0·5
Profits chargeable to corporation tax (PCTCT)	£1,052,400		£259,350		
Tax rate thresholds:					
£1,500,000/2 (x 3/12)	£750,000		£187,500		
£300,000/2 (x 3/12)	£150,000		£37,500		2
Tax at 30%		£315,720		£77,805	1

		Marks
w1		
Capital allowances		
	General pool	
12 months to 31 December 2005	**£**	
Balance b/forward	720,000	
WDA – 25%	(180,000)	0·5
	540,000	
3 months to 31 March 2006		
WDA – 25% x 3/12	(33,750)	1
	£506,250	
		10

(c) Purple Ltd – Corporation tax computation for the year ended 31 March 2006

Small company with non-corporate dividends

Underlying rate of tax:

	£	
£40,000 x 19%	7,600	
Marginal relief:		
(£50,000 – £40,000) x 19/400	(475)	
	£7,125	2
$\frac{£7,125}{£40,000}$ x 100	17·81%	1

Tax payable:

£24,000 x 19%	4,560	
£16,000 x 17·81%	2,850	
£40,000	£7,410	2
		5
		25

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

	£	
Farm land		
Proceeds	90,000	
Expense of selling	(1,000)	
	89,000	1
Cost:		
£54,000 x $\frac{90,000}{90,000 + 180,000}$	(18,000)	2
	£71,000	
Taper relief 5 years – 85%		0·5
Building:		
Proceeds	140,000	0·5
Indexed cost at 6 April 1998	(63,420)	1
	£76,580	
Taper relief 7 years (business asset) – 25%		0·5
Car:		
Exempt		1
Painting:		
Deemed proceeds	6,000	1
Cost	(8,200)	0·5
Loss	£2,200	

				Marks
Summary:				
	£	£		
Gains	71,000	76,580		
Loss	(2,200)			1
	£68,800	£76,580		
Taper	85%	25%		
Chargeable gains	£58,490	£19,145		1
Total	£77,625			
Annual exemption	(£8,500)			1
	£69,125			
Basic band unused:	£32,400 – £30,800 = £1,600			1
Capital gains tax payable:				
		£		
	£1,600 x 20%	320		0·5
	£67,525 x 40%	27,010		0·5
		£27,330		**13**

(ii) Payable — 31 January 2007 — 1

(b) (i) Petra – Capital gains tax for the tax year 2005–06

	£	Marks
Proceeds	245,000	1
Indexed cost at 6 April 1998	(100,640)	1
	144,360	
Chargeable now:		
£120,000 – £80,000	(40,000)	1
	£104,360	1
Taper relief 7 years (business asset): 25%		
£40,000 x 25	£10,000	1
		5

(ii) Base cost for Peter

		Marks
Market value	245,000	
Gift relief	(104,360)	
	£140,640	**1**
		20

					Marks
4 (a)		**Carol, Wendy and Bob – Partnership taxable income**			
Year to 31 January 2006					
	Carol	**Wendy**	**Bob**	**Total**	
	£	**£**	**£**	**£**	
Salary	10,000			10,000	1
Interest (4%)	1,600	800	400	2,800	1·5
Balance (3:1:1)	40,320	13,440	13,440	67,200	1·5
	£51,920	£14,240	£13,840	£80,000	
					4

(b) (i) Morgan – Opening year assessments

		£	
2003–04	Actual basis		0·5
	1 February 2004 – 5 April 2004		0·5
	2/5 x £8,000	3,200	0·5
2004–05	1st 12 months of trading		0·5
	1 February 2004 – 31 January 2005		0·5
	£8,000+ 7/12 x £18,000	18,500	1·5
2005–06	Current year basis – 30 June 2005	18,000	1
2006–07	Current year basis – 30 June 2006	20,000	1
			6

(ii) **Overlap profit**

	£	
1 February 2004 – 5 April 2004 2/5 x £8,000	3,200	1
1 July 2004 – 31 January 2005 7/12 x £18,000	10,500	1
	£3,700	**2**

(c) **Meeting notes – VAT annual accounting scheme**

- Tax exclusive turnover must not have exceeded £660,000 in the 12 months up to the date of application
- Must have been registered for at least 12 months
- The 12 month registration period does not apply if turnover is £150,000 or less and can join the scheme as soon as registered
- All previous returns must be up to date
- Can not join the scheme if input tax exceeded output tax in the previous year
- One return is required two months after the year end
- Nine monthly payments are required, each equal to 10% of last years total VAT starting at the end of the fourth month
- Quarterly payments of 25% of the agreed provisional liability can be made if taxable turnover is £150,000 or less
- A balancing payment is due with the return
- Must leave the scheme when taxable turnover exceeds £825,000
- Only one VAT return per year so fewer chances to trigger a default surcharge
- Cash flow can be managed better

One mark for each valid point – maximum of 8

20