Preparing Taxation Computations
(UK Stream)

Paper T9(GBR)

ACCA CERTIFIED ACCOUNTING TECHNICIAN EXAMINATION

ADVANCED LEVEL

TUESDAY 13 JUNE 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

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) Fred was self employed until 31 August 2005 when he ceased to trade. On 1 September 2005 he commenced employment as a business manager with Hi-Low Ltd, a large UK company.

Fred's tax adjusted profits, after capital allowances, for his final two accounting periods were as follows:

Year ended 31 May 2005:	£25,000
3 months to 31 August 2005:	£4,000

Unused overlap profits from his opening years of business were £2,000.

From 1 September 2005 Fred received an annual salary of £36,000 gross from Hi-Low Ltd and during the tax year 2005—06 also received the following benefits:

– Private medical insurance, starting from 6 September 2005. The annual premium cost Hi-Low Ltd £720, but the same insurance cover would have cost Fred £900 if he had arranged it privately.
– Luncheon vouchers at £1·55 per working day. Fred worked 150 days during the period 1 September 2005 to 5 April 2006.
– The use of computer equipment at home for both business and private use. The equipment had a market value of £4,800 when it was first provided on 1 September 2005.

In addition to the above benefits Fred uses his own car for all business journeys and claims a mileage allowance from Hi-Low Ltd. During the period 1 September 2005 to 5 April 2006 Fred drove 2,400 business miles and received 45p per mile from Hi-Low Ltd.

During the tax year 2005–06 Hi-Low Ltd deducted income tax amounting to £3,300 from Fred's salary.

Starting on 10 November 2005 and on the 10th of each month thereafter Fred paid £30 to a UK registered charity via Hi-Low Ltd's company arranged payroll deduction scheme. He also paid his annual subscription of £150 to the Institute of Managers, an HMRC approved professional body, in January 2006.

On 14 February 2006 Fred sent a cheque for £1,872 to his pension advisor. This sum was invested into his private pension plan by his advisor on 22 February 2006.

Fred's only other income for the tax year 2005–06 was:

Bank deposit account interest	£600
Building society savings account interest	£320
Building society Individual Savings Account (ISA) interest	£400
Debenture interest from UK companies	£320
Dividends from UK companies	£270

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

Required:

Calculate the income tax payable by Fred for the tax year 2005–06. (22 marks)

(b) Peter works for Sports (UK) Ltd. During the tax year 2005–06 he was paid a salary of £2,210 per month. In addition he received non-cash benefits of £8,000 for the tax year 2005–06 and was paid a cash bonus of £7,500 in February 2006.

Required:

Calculate the amount of class 1 and class 1A national insurance contributions (NIC) payable by Peter and Sports (UK) Ltd for the tax year 2005–06. (8 marks)

(c) Susan also worked for Sports (UK) Ltd but has recently been made redundant and is about to start employment with another company, Fitness (UK) Ltd.

Sports (UK) Ltd is about to issue Susan with her form P45 but is not sure about its distribution.

Required:

State how many parts of the form P45 are required and how all parts will be distributed and to whom. (5 marks)

(35 marks)

2 **(a)** Yellow Ltd is a UK registered company, which satisfies the conditions for small company status for capital allowance purposes.

On 1 May 2005, Yellow Ltd's tax written down values brought forward were as follows:

The general pool of plant and machinery:	£86,000
An expensive car (purchased in November 2000)	£4,500
A short life asset (SLA) (purchased in August 2004 for £8,000)	£4,000

During its eight month accounting period ended 31 December 2005 Yellow Ltd had the following capital transactions:

Purchases	
2 May 2005	Machine A, which is to be treated as a short life asset (SLA), for £18,000
14 June 2005	A car for £26,000
1 September 2005	Machine B for £20,000
Disposals:	
19 June 2005	Machine C sold for £3,000 (its original cost was £6,000)
16 July 2005	The short life asset (SLA) purchased in August 2004, sold for £2,400
1 December 2005	The expensive car purchased in November 2000 sold for £6,000

Neither of the cars was a low CO_2 emission vehicle

Required:

Calculate the maximum capital allowances claimable by Yellow Ltd for its eight month accounting period ended 31 December 2005. (10 marks)

(b) Scarlet Ltd is a large UK resident company with one associated company. The company has always made up its accounts to 31 December each year and has always paid tax at the full rate. Due to a change in accounting procedures the company decided to change its accounting date to 31 March.

The following are Scarlet Ltd's results for the fifteen month accounting period ended 31 March 2006:

Adjusted trading profit (before capital allowances)	£1,400,500
Property business profit	£105,000
Capital gains	
– 14 August 2005 disposal	£28,000
– 2 January 2006 disposal	£4,000
capital loss – 12 February 2006 disposal	(£5,000)
Gift aid payment to a UK registered charity paid on 31 March 2006	(£8,000)

The property business profit was earned evenly over the entire period and is based on the actual amount of rents due.

The tax written down value of the company's pool of general plant and machinery brought forward on 1 January 2005 was £720,000. There were no capital transactions affecting the capital allowances pool during the fifteen month period ended 31 March 2006.

Required:

Calculate the corporation tax payable by Scarlet Ltd for each of its two chargeable accounting periods ended 31 March 2006. (10 marks)

(c) Purple Ltd is a UK company. 80% of its issued share capital is owned by John Tracey and the other 20% is owned by Blue Ltd. Neither John nor Purple Ltd own shares in any other company.

Purple Ltd had profits chargeable to corporation tax (PCTCT) of £40,000 for its year ended 31 March 2006 and paid a dividend of £24,000 to John and £6,000 to Blue Ltd on 31 March 2006.

Required:

Calculate the corporation tax payable by Purple Ltd for its year ended 31 March 2006. (5 marks)

(25 marks)

3 **(a)** Paul is a UK resident. During the tax year 2005–06 he made the following capital disposals:

12 May 2005 – 10 acres of farmland, sold for £90,000. Selling expenses amounted to £1,000. The farmland was part of a 25-acre field that Paul had purchased in November 1999 for £54,000. The market value of the remaining 15 acres on 12 May 2005 was £180,000. The field had never been used as a business asset.

15 October 2005 – A building used in his business, sold for £140,000. The building had been purchased in September 1996 for £60,000 and had an indexed cost of £63,420 on 6 April 1998.

14 November 2005 – A vintage car, sold for £36,000. The car had been purchased in October 2001 for £21,000 and had never been used as a business asset.

2 February 2006 – A painting, sold for £5,000. The painting had been purchased in May 2004 for £8,200 and had never been used as a business asset.

Paul's taxable income (after deduction of his personal allowance) for income tax purposes for the tax year 2005–06 was £30,800.

Required:

(i) Calculate the capital gains tax payable by Paul for the tax year 2005–06. (13 marks)

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

(b) Paul's wife, Petra recently decided to retire after running a successful business for fifteen years. She sold a business asset to their son Peter in February 2006 for an agreed price of £120,000. The asset is actually worth £245,000.

Petra had purchased the asset for £80,000 in 1990 and it had an indexed cost of £100,640 on 6 April 1998.

Petra and Peter have made a joint election for gift relief.

Required:

(i) Calculate Petra's chargeable gain (after taper relief) on the disposal of the asset. (5 marks)

(ii) State Peter's base cost of the asset for future capital gains tax purposes. (1 mark)

(20 marks)

4 (a) Carol, Wendy and Bob have been in partnership for several years. Carol receives an annual salary of £10,000 and each partner receives 4% interest on the capital they have contributed. The balance of profits is shared in the ratio of 3:1:1 to Carol, Wendy and Bob respectively.

The capital amounts contributed are:

Carol	£40,000
Wendy	£20,000
Bob	£10,000

For the accounting year ended 31 January 2006 the partnership tax adjusted trading profit was £80,000.

Required:

Calculate each partner's taxable income from the partnership for the accounting year ended 31 January 2006. (4 marks)

(b) Morgan commenced in business as a sole trader on 1 February 2004. His first set of accounts were made up to 30 June 2004 and annually thereafter on 30 June.

Morgan's tax adjusted profits, after capital allowances, for his first three accounting periods were:

5 months to 30 June 2004	£8,000
Year to 30 June 2005	£18,000
Year to 30 June 2006	£20,000

Required:

(i) Calculate the trading income assessments for each of the first four tax years applicable to the business. (6 marks)

(ii) State the amount of overlap profits arising. (2 marks)

(c) Charles has recently registered for VAT. A friend has told him that he may benefit from using the annual accounting scheme. He has written to you and asked for advice on this point.

Required:

Prepare draft notes, for a meeting with Charles, outlining both the rules and potential benefits of using the annual accounting scheme. (8 marks)

(20 marks)

End of Question Paper