Answers

1 (a) (i) **Mary – Benefits 2006-07**

				£	*Marks*
Loan					
Average method					
$\frac{£40,000 + £32,000}{2} = £36,000$					
£36,000 x (5% – 1%) =		£1,440			1·5
Strict statutory method					
£40,000 x (5% – 1%) x 3/12 =		400			
£32,000 x (5% – 1%) x 9/12 =		960			
		£1,360			2
Mary would choose to be taxed on the figure calculated using the lower strict statutory method				1,360	0·5
Car					
CO_2 emission		196			
Base figure		(140)			
		56			0·5
Divided by 5 and rounded down		11			1
Starting percentage		15			0·5
Diesel addition		3			0·5
Final percentage		29			
List price		£15,000			0·5
Benefit £15,000 x 29% x 7/12		2,538			1
Contribution £20 x 7 months		(140)			1
		£2,398		2,398	
Fuel £14,400 x 29% x 7/12 (contributions are not deductible)				2,436	1·5
Cinema system					
Use	£4,000 x 20%		£800		1
Gift	Current market value	£900			0·5
	or				
	Original cost	£4,000			
	less 20% for:				
	2003–04	(800)			
	2004–05	(800)			
	2005–06	(800)			
	2006–07	(800)			
		£800			2
	The higher amount is taken		£900	1,700	1
Pension contributions	exempt				1
					16
Total benefits for 2006–07				£7,894	

(ii) AB (UK) Ltd must submit form P11D to HM Revenue and Customs (HMRC) in respect of Mary by 6 July 2007 — **2**

Marks

(b) **Patrick – Income tax payable 2006–07**

		Total	Non-savings income	Savings income	Dividends	Marks
	£	£	£	£	£	
Salary	65,000					0·5
Bonus	8,000					0·5
Benefits	4,350					0·5
	77,350					
Pension contributions (£400 x 12)	(4,800)					1
Employment income		72,550	72,550			
Dividend (£1,800 x 100/90)		2,000			2,000	1
Bank interest (£2,400 x 100/80)		3,000		3,000		1
NSC interest – exempt						0·5
Premium bond winnings – exempt						0·5
Statutory total income		77,550	72,550	3,000	2,000	
Personal allowance		(5,035)	(5,035)			0·5
Taxable income		£72,515	£67,515	£3,000	£2,000	

Basic band extension: £33,300 + (£780 x 100/78)= £34,300 — 1

			£	Marks
1st	2,150	x 10%	215	0·5
Next	32,150	x 22%	7,073	0·5
	34,300			
Next	33,215	x 40%	13,286	0·5
Savings	3,000	x 40%	1,200	0·5
Dividend	2,000	x 32·5%	650	0·5
Tax liability			22,424	
Dividend credit (£2,000 x 10%)			(200)	0·5
Bank interest credit (£3,000 x 20%)			(600)	0·5
PAYE			(21,400)	0·5
Tax payable			£224	**11**

(c) **Anita and Gregory – Tax refunds**

Anita

	£	Marks
£500 x 100/80	625	
Personal allowance	(5,035)	
Taxable income	Nil	
Refund due (£625 x 20%)	£125	1

Anita can claim the refund because this is actual tax deducted at source by Anita's bank. 0·5

Gregory

	£	Marks
£360 x 100/90	400	
Personal allowance	(5,035)	
Taxable income	Nil	
Refund due	Nil	0·5

Gregory cannot reclaim the dividend tax credit of £40 (£400 x 10%). This is because the tax credit on a dividend is a deemed credit and has not actually been deducted by the company, and therefore has not been paid by Gregory. 1

3

32

				Marks

2 (a) (i) United plc – Capital gain 17 May 2006

FA85 pool

	Shares	Cost	Indexed cost	
		£	£	
May 1997 purchase	3,000	6,000	6,000	0·5
Indexed to August 2004				
0·194 x £6,000			1,164	0·5
August 2004 purchase	5,000	18,000	18,000	0·5
	8,000	24,000	25,164	
Indexed to May 2006				
0·042 x £25,164			1,057	0·5
	8,000	24,000	26,221	
May 2006 disposal	(4,000)	(12,000)	(13,111)	1.0
	4,000	£12,000	£13,110	

	£	
Gain		
Proceeds	40,000	
Cost	(12,000)	0·5
	28,000	
Indexation allowance (£13,111 – £12,000)	(1,111)	0·5
	£26,889	
		4

(ii) United plc – Capital allowances for the year ended 31 March 2007

	FYA	General pool	Expensive car	Capital allowances	
	£	£	£	£	
Balance brought forward		126,000			0·5
Purchases:					
Machine	40,000				0·5
Car			24,000		0·5
Disposals:					
Machine		(6,000)			0·5
	40,000	120,000	24,000		
WDA – 25%		(30,000)		30,000	1
WDA – restricted			(3,000)	3,000	1
FYA – 50%	(20,000)			20,000	1
Transfer to pool	(20,000)	20,000			
Balances carried forward	Nil	£110,000	£21,000		
Total capital allowances				£53,000	
					5

(Note the percentage of private use on the car is irrelevant)

(iii) United plc – Corporation tax for the year ended 31 March 2007

	£	£	
Adjusted trade profit	256,000		0·5
Capital allowances (part ii)	(53,000)	203,000	0·5
Property income (£9,000 + £3,000)		12,000	1
Investment income (£1,600 – £600)		1,000	1
Capital gain (part i)		26,889	0·5
Profits chargeable to corporation tax (PCTCT)		242,889	
FII (£9,000 x 100/90)		10,000	1
Profits		£252,889	

Marks

The tax limits are divided by the number of associated companies – three (United plc, City Ltd and Rovers plc – but not Wanderers Ltd)

$\frac{£1,500,000}{3}$ £500,000

$\frac{£300,000}{3}$ £100,000 1·5

Therefore, United plc is a marginal rate company

	£	Marks
£242,889 x 30%	72,867	1
(£500,000 – £252,889) x $\frac{£242,889}{£252,889}$ x 11/400	(6,527)	2
	£66,340	**9**

(iv) The date of payment is 1 January 2008 (9 months and 1 day after the end of the accounting period) **1**

(b) (i) & (ii) Athletic Ltd – Registration for value added tax (VAT)

	£		Marks
1 December 2007–29 February 2008	15,000		
1 March 2008–31 May 2008	21,000		
June 2008	14,000	(£42,000 x 1/3)	
July 2008	14,000	(£42,000 x 1/3)	
	£64,000		2

The £61,000 VAT threshold is exceeded at the end of July 2008.
Athletic Ltd must notify HM Revenue and Customs (HMRC) within 30 days of the end of July 2008 i.e. by 30 August 2008. 1

3

Athletic Ltd will then be compulsorily registered on the 1st day of the month following the month in which the threshold was exceeded (or an earlier date if requested) i.e. 1 September 2008. **1**

(iii) The normal length of a VAT return period is three calendar months. 1
The return must be sent to HMRC by the end of the month following the end of the return period. 1

2

25

			Marks
3 (a) Donald – Chargeable gains for the tax year 2006–07			
Shares	**Shares**	**Cost**	
		£	
14 October 2000	4,000	6,000	
18 May 2004			
1 for 2 rights at £2.50	2,000	5,000	2
	6,000	11,000	
14 June 2006 disposal	(4,000)	(7,333)	1
	2,000	£3,667	
Gain		£	
Proceeds		18,000	
Cost		(7,333)	
		£10,667	1
Taper relief 5 years = 85%			0·5
£10,667 x 85%		£9,067	0·5
Cricket bat			
Exempt			
Chattel bought and sold for less than £6,000			1
House			
Proceeds		340,000	
April 1998 indexed cost		(161,600)	1
July 2004 extension		(36,000)	1
		£142,400	
Taper relief 8 years plus one bonus year = 9 years = 65%			1
£142,400 x 65%		£92,560	0·5
(note: the August 1997 extension is reflected in the April 1998 indexed cost)			
Total gains for 2006–07: (£9,067 + £92,560)		£101,627	0·5
			10

(b) (i) Caroline – Capital gains tax for the tax year 2006–07

	Business asset 1	Non business asset 1	Non business asset 2	
	£	£	£	
Gain	40,000	3,000	2,000	
Current year loss		(3,000)	(1,000)	1
Brought forward loss	(2,000)		(1,000)	1
Net gains	£38,000	nil	nil	
Taper percentage	25%	85%	65%	1·5
Chargeable gains	9,500	nil	nil	0·5
Annual exemption	(8,800)			1
Taxable gain	£700			

	£	
Basic tax band	33,300	
Taxable income	(33,000)	
Balance remaining	£300	1

Capital gains tax payable:

	£	
£300 x 20%	60	0·5
£400 x 40%	160	0·5
	£220	7

Marks

(ii) The date of payment is 31 January 2008 — 1

(c) (i) **Bernadette – Chargeable gain for 2006–07**

	£	Marks
Proceeds (market value)	45,000	1
Cost	(18,000)	0·5
	27,000	
Chargeable now (£26,000 – £18,000)	(8,000)	1
Gift relief	£19,000	0·5
Taper relief = 25%		0·5
Chargeable gain:		
£8,000 x 25%	£2,000	0·5
		4

(ii) The base cost for Billy is:

£45,000 – £19,000 =	£26,000	1
		23

4 (a) (i) **Bobby – Opening year assessments 2003–04 to 2006–07**

				Marks
Year 1	2003–04	Actual 1 February 2004 – 5 April 2004 2/16 x £24,000	£3,000	1·5
Year 2	2004–05	Actual 6 April 2004 – 5 April 2005 12/16 x £24,000	£18,000	1·5
Year 3	2005–06	12 months to accounting date 1 June 2004 – 31 May 2005 12/16 x £24,000	£18,000	1
Year 4	2006–07	Current year basis Year ended 31 May 2006	£36,000	1
				5

(ii) **Overlap profits**

	£	Marks
2003–04	3,000	
2004–05	18,000	
2005–06	18,000	
2006–07	36,000	
	75,000	1
Actual profit in the periods ended 31 May 2006	(60,000)	
Overlap profits	£15,000	1
		2

Note: Other methods of calculating and illustrating the calculation of the overlap profits are acceptable.

Marks

(b) **Bobby – Industrial buildings allowance – period ended 31 May 2005**

Calculated on:

Lower of cost or second-hand price:	£70,000		1
Remaining tax life:	21 years 7 months (259 months)		1
WDA $\frac{£70,000}{259}$ x 12 =	£3,243 per year		1
IBA for period ended 31 May 2005: £3,243 x 16/12 =		£4,324	1
			4

(c)

Tax Advisers
Glasgow

13 June 2007

Reference: xxx

Bobby
23 The Avenue
Glasgow

Dear Sir

National Insurance Contributions (NIC)

Thank you for your letter dated 8 June in which you request details of your NIC obligations in respect of your new salesman.

There are various classes of NIC of which class 1 and class 1A relate to employees. The employee himself will suffer class 1 primary contributions and you, as the employer, will be liable to pay both class 1 secondary contributions on the employee's cash earnings and class 1A contributions on any taxable non-cash benefits the employee receives; the car in this instance. 1·5

The class 1 contributions will be worked out monthly, and paid to HM Revenue and Customs (HMRC) on or before the 19th of the following month. Class 1A contributions will be calculated at the end of each tax year and paid to HMRC by 19 July following the end of the tax year. 2

The employee primary contributions each month will be:

	£	
1st £420	nil	
£2,795 – £420 x 11%	261	
£3,000 – £2,795 x 1%	2	
	£263	1·5

Your secondary contributions each month will be:

	£	
1st £420	nil	
£3,000 – £420 x 12·8%	330	
	£330	1

In addition your liability to class 1A contributions on the benefits will be £410 (£3,200 x 12·8%). 1

If you need any further assistance please do not hesitate to contact me at the above address.

Yours sincerely

An Advisor

Presentation	2
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