

Certified Accounting Technician Examination  
Advanced Level

# Preparing Taxation Computations (UK Stream)

Tuesday 11 December 2007

**Time allowed**

Reading and planning: 15 minutes

Writing: 3 hours

ALL FOUR questions are compulsory and MUST be attempted.

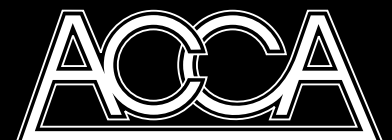
Tax rates and allowances are on pages 3–5.

**Do NOT open this paper until instructed by the supervisor.**

**During reading and planning time only the question paper may be annotated. You must NOT write in your answer booklet until instructed by the supervisor.**

**This question paper must not be removed from the examination hall.**

The Association of Chartered Certified Accountants



# Paper T9 (UK)

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The question paper begins on page 3.**

### Supplementary Instructions

1. Calculations and workings need only be made to the nearest £.
2. All apportionments should be made to the nearest month.
3. All workings should be shown.

### Tax Rates and Allowances

The following tax rates and allowances are to be used in answering the questions

#### Income tax

Starting rate	£1–£2,150	10%
Basic rate	£2,151–£33,300	22%
Higher rate	£33,301 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	£ 5,035
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#### Company car benefit

The base level of CO<sub>2</sub> 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

#### Pension scheme limits

Annual allowance	£215,000
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The maximum contribution that can qualify for tax relief without evidence of earnings is £3,600.

#### 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 <sub>2</sub> 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 2006 to 31 March 2007 (6 April 2006 and 5 April 2007 for unincorporated businesses).

Industrial buildings	
Writing down allowance	4

### Corporation tax

Financial year	2004	2005	2006
Small companies rate	19%	19%	19%
Full rate	30%	30%	30%
Small companies rate lower limit	£300,000	£300,000	£300,000
Small companies rate upper limit	£1,500,000	£1,500,000	£1,500,000
Marginal relief fraction:	11/400	11/400	11/400

### Marginal relief

$(M - P) \times I/P \times \text{marginal relief fraction}$

### Value added tax

	£
Registration limit	61,000
Deregistration limit	59,000

### Capital gains tax: annual exemption

Individuals	£8,800
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### 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–£5,035 per year	Nil
	£5,036–£33,540 per year	11·0
	£33,541 and above per year	1·0
Class 1 employer	£1–£5,035 per year	Nil
	£5,036 and above per year	12·8
Class 1A		12·8
Class 2	£2·10 per week	
Class 4	£1–£5,035 per year	Nil
	£5,036–£33,540 per year	8·0
	£33,541 and above per year	1·0

Where weekly or monthly calculations are required the Class 1 limits shown above should be divided by 52 (weekly) or 12 (monthly) as applicable.

**ALL FOUR questions are compulsory and MUST be attempted**

- 1 (a)** Mary works for AB(UK) Ltd, a large UK resident company, and earns an annual gross salary of £50,000. During the tax year 2006–07 she received the following benefits:
- A loan to help her purchase a yacht. AB(UK) Ltd advanced her £40,000 on 6 April 2006 and charged her interest at the rate of 1% per annum. Mary repaid £8,000 of the loan on 6 July 2006, but the remaining £32,000 remains outstanding.
  - Use of a 1600 cc diesel Vauxhall car, with a CO<sub>2</sub> emission rate of 196 grams per kilometre and a recommended list price of £15,000. The car was first provided to Mary on 6 September 2006 for both her private and business use. The private usage is 40% and the business usage 60%. The company pays for all the running costs of the vehicle, which amounted to £1,800 for the period to 5 April 2007. Mary was required to contribute £20 per month towards the private use of the car and £10 per month towards the cost of private fuel.
  - Use of a home cinema system. This was first provided to Mary to use at home on 6 April 2003, the date it was purchased by AB(UK) Ltd at a cost of £4,000. The system was gifted to Mary outright on 5 April 2007, when it was worth £900.
  - Occupational pension contributions amounting to £4,000 during 2006–07. These were paid by AB(UK) Ltd, on Mary's behalf.

**Required:**

- (i) Calculate the total value of benefits provided to Mary for the purposes of income tax, for the tax year 2006–07.** (16 marks)
- (ii) State which HM Revenue and Customs (HMRC) form AB(UK) Ltd is required to complete to report these benefits and the date by which it should be submitted.** (2 marks)
- (b)** Mary's husband Patrick has worked for AB(UK) Ltd since 2004 and he has provided you with the following information regarding his income and outgoings for the tax year 2006–07:

**Income**

- A gross salary of £65,000.
- A bonus of £8,000, received in May 2006, in respect of the company's accounting year ended 31 December 2005. A bonus of £10,000 was received in May 2007 in respect of AB(UK) Ltd's accounting year ended 31 December 2006.
- Taxable benefits with a value for tax purposes of £4,350.
- Dividends received from UK companies of £1,800.
- Interest credited to his bank account of £2,400.
- Interest received from national savings certificates of £400.
- Premium bond prizes received of £1,500.

**Expenditure**

- Pension contributions paid to AB (UK) Ltd's HMRC approved occupational pension scheme of £400 per month.
- A donation of £780 (net) paid to a UK registered charity in August 2006 under the gift aid scheme.

Tax, amounting to £21,400, for 2006-07 was deducted from Patrick's employment income by PAYE.

**Required:**

**Calculate the income tax payable by Patrick for the tax year 2006–07.** (11 marks)

**(c)** Patrick and Mary have two children, Anita aged 14 and Gregory aged 19.

Anita's only income in the tax year 2006–07 was £500 (net) interest received from savings invested in a building society account.

Gregory's only income for the tax year 2006–07 was dividends of £360 from shares held in a UK company.

Neither Patrick nor Mary provided the capital, which generated the above amounts of income.

**Required:**

**State the tax refund (if any) due to Anita and Gregory respectively for the tax year 2006–07, giving reasons why a refund is due or is not due.** (3 marks)

**(32 marks)**

- 2 (a)** United plc is a UK resident company. It owns 80% of City Ltd, 62% of Rovers plc and 40% of Wanderers Ltd. During its accounting year ended 31 March 2007 United plc made a trading profit, **fully adjusted** for tax purposes but before the deduction of capital allowances, of £256,000

United plc has provided you with the following additional information for the year ended 31 March 2007:

- 4,000 shares in Town Ltd were sold for £40,000 on 17 May 2006. United plc had purchased Town Ltd shares as follows:

3,000 shares in May 1997 for £6,000

5,000 shares in August 2004 for £18,000

The total holding represented less than 1% of Town Ltd's issued share capital.

The following indexation factors are to be used:

May 1997 to August 2004: 0.194

August 2004 to May 2006: 0.042

- United plc received dividends of £9,000 from Wanderers Ltd.
- Rental income of £12,000 was receivable for the year, of which £3,000 was still outstanding as at 31 March 2007.
- Bank interest of £1,600 was received. This was the full amount receivable for the year ended 31 March 2007.
- Interest of £600 was paid in respect of money borrowed for non-trade purposes. This was also the full amount due for the year ended 31 March 2007.
- The balance on the general pool for capital allowance purposes on 1 April 2006 was £126,000.
- A new machine costing £40,000 was purchased on 14 May 2006. This was to replace an unwanted machine, which had cost £18,000 in September 1997, and which was sold for £6,000 in June 2006.
- A car costing £24,000 was purchased for use by the finance director in August 2006. This car is used 40% for private purposes and 60% for business purposes. The car is not a low-emission car.

United plc is classed as a small business for the purposes of capital allowances.

**Required:**

- (i) Calculate the capital gain on the disposal of the Town Ltd shares on 17 May 2006.** (4 marks)
- (ii) Calculate the maximum capital allowances that United plc can claim for the year ended 31 March 2007.** (5 marks)
- (iii) Calculate the corporation tax payable by United plc for the year ended 31 March 2007.** (9 marks)
- (iv) State the due date of payment of the corporation tax calculated in (iii) above.** (1 mark)



**(b)** Athletic Ltd is a small UK registered company, which is not yet registered for value added tax (VAT). The company started to trade on 1 December 2007 and its forecast total sales for the periods shown are expected to be:

1 December 2007 to 29 February 2008	£15,000
1 March 2008 to 31 May 2008	£21,000
1 June 2008 to 31 August 2008	£42,000

You should assume that all sales are made evenly throughout the periods shown.

The above figures are exclusive of VAT.

**Required:**

- (i) State the date by which Athletic Ltd will have to notify HM Revenue and Customs (HMRC) of its need to register for VAT. Include workings to support your answer.** (3 marks)
- (ii) State the date by which Athletic Ltd will be compulsorily registered for VAT.** (1 mark)
- (iii) On the assumption that Athletic Ltd only makes standard rated sales and does not join the annual accounting scheme, state the length of the company's normal VAT return period and by when the VAT return must be received by HMRC.** (2 marks)

**(25 marks)**

3 (a) Donald made the following disposals of assets in the tax year 2006–07:

14 June 2006: 4,000 shares in XYZ plc were sold for £18,000. Donald's record of purchases of XYZ plc's shares is as follows:

14 October 2000      4,000 shares for £6,000  
18 May 2004          A 1 for 2 rights issue at £2.50 per share was taken up in full

19 November 2006: A cricket bat, signed by the English cricket squad, was sold for £5,800. It had been purchased for £3,500 in September 2005.

2 February 2007: A house, which had never been Donald's main residence, was sold for £340,000. It had been purchased in May 1996 for £125,000 and had been extended at a cost of £28,000 in August 1997. A second extension costing £36,000 was added in July 2004. The indexed cost of the house (including the first extension) on 6 April 1998 was £161,600.

None of the above assets were business assets.

**Required:**

**Calculate Donald's chargeable gains (after taper relief) for the tax year 2006–07.** (10 marks)

(b) Caroline has taxable income, after the deduction of her personal allowance, for the tax year 2006–07 of £33,000.

Caroline disposed of four assets during the tax year 2006-07 with the following results:

	Date sold	Date purchased	Gain/loss
Business asset 1	14 May 2006	2 June 1997	£40,000 gain
Business asset 2	17 November 2006	15 March 1999	£(4,000) loss
Non business asset 1	14 January 2007	12 August 2001	£3,000 gain
Non business asset 2	23 March 2007	8 June 1997	£2,000 gain

In addition, Caroline has unused capital losses brought forward as at 6 April 2006 amounting to £3,000.

**Required:**

(i) **Calculate the capital gains tax payable by Caroline for the tax year 2006–07.** (7 marks)

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

(c) Bernadette is a sole trader. On 14 September 2006 she sold an asset, which had always been used in her business, to her brother Billy, for £26,000. The asset had cost Bernadette £18,000 in August 1999 and it had a market value on 14 September 2006 of £45,000.

**Required:**

(i) **Calculate Bernadette's chargeable gain (after taper relief) on the disposal of the asset, assuming that Bernadette and Billy make any beneficial claims or elections to reduce the tax payable on the gift.** (4 marks)

(ii) **State the capital gains tax base cost of the asset for Billy.** (1 mark)

**(23 marks)**

- 4 (a) Bobby started in business as a sole trader on 1 February 2004. His first set of accounts were made up for the sixteen month period ending 31 May 2005. Accounts were made up annually thereafter. His adjusted trading profits after capital allowances for his first three accounting periods were as follows:

Period to 31 May 2005	£24,000
Year to 31 May 2006	£36,000
Year to 31 May 2007	£46,000

**Required:**

- (i) Calculate Bobby's assessable profits for the first four tax years of his business, clearly stating the basis periods that apply. (5 marks)
- (ii) Calculate the amount of overlap profits for all of the tax years covered in (i) above. (2 marks)
- (b) On the first day of his business, 1 February 2004, Bobby purchased a second hand factory to carry on his manufacturing trade. He paid £80,000 to the original owner, who had purchased the factory on 1 September 2000 for £70,000. The factory has always been used for a qualifying manufacturing purpose.

**Required:**

**Calculate how much industrial buildings allowance (IBA) Bobby would have been able to claim for the accounting period ended 31 May 2005.** (4 marks)

- (c) Bobby is about to employ his first salesman. The salesman's salary will be £36,000 per year and he will be given the use of a company car, which has a taxable benefit of £3,200. Bobby knows there is a requirement to calculate and account for national insurance contributions (NIC) but is not sure how to do so in this case.

The salesman will be not-contracted out for the purposes of NIC and will be paid a gross monthly salary of £3,000.

Bobby has written to you, his tax adviser, requesting details of his NIC obligations in respect of the salesman.

**Required:**

**Write a letter to Bobby, using fictitious addresses, explaining:**

- the classes of NIC suffered by both Bobby, as employer, and the salesman, as employee;
- the amount of NIC that will be suffered in each case (calculated on a monthly basis where applicable); and,
- the dates by which any NIC due will be payable to HM Revenue and Customs (HMRC).

Note: You are NOT required to calculate Bobby's own personal NIC liability, only the NIC suffered in respect of Bobby as an employer and that of the salesman, as employee.

Marks will be awarded for the style and presentation of your answer.

(9 marks)

**(20 marks)**

**End of Question Paper**