
Answers

		Stephen – Income tax payable for the tax year 2006–07			Marks
		Total	Non-savings income	Savings income	
		£	£	£	
	Salary	47,000	47,000		0.5
	Benefits	2,400	2,400		0.5
	Bonus	4,000	4,000		1
	Pension contributions (£47,000 x 5%)	(2,350)	(2,350)		1
	Employment income	51,050	51,050		
	Bank interest (£240 x 100/80)	300		300	1
	Building society interest (£760/2 x 100/80)	475		475	1
	National savings certificate interest – exempt				1
	Statutory total income	51,825	51,050	775	
	Personal allowance	(5,035)	(5,035)		0.5
	Taxable income	<u>£46,790</u>	<u>£46,015</u>	<u>£775</u>	
	Company pension contributions – exempt benefit				0.5
	Tax payable:				
		£	£		
	1st	2,150 x 10%	215		0.5
	Next	31,150 x 22%	6,853		0.5
		<u>33,300</u>			
	Next	13,490 x 40%	5,396		0.5
		<u>46,790</u>	<u>12,464</u>		
	Less tax deducted at source:				
	Savings £775 x 20%		(155)		1
	PAYE		(11,100)		0.5
	Tax payable		<u>£1,209</u>		<u>10</u>
		Rebecca – Income tax payable for the tax year 2006–07			
		Total	Non-savings income	Savings income	
		£	£	£	
	Salary	40,700	40,700		0.5
	Benefits	2,000	2,000		0.5
	Employment income	42,700	42,700		
	Bank interest (£160 x 100/80)	200		200	1
	Building society interest (£720/2 x 100/80)	475		475	1
		43,375	42,700	675	
	Patent royalties (£780 x 100/78)	(1,000)	(1,000)		1
	Statutory total income	42,375	41,700	675	
	Personal allowance	(5,035)	(5,035)		0.5
	Taxable income	<u>£37,340</u>	<u>£36,665</u>	<u>£675</u>	
	Extension of basic rate band	£33,300 + (8% x £42,700) = £36,716			1

	£	£	Marks	
1st	2,150	x 10%	215	0.5
Next	34,515	x 22%	7,593	0.5
	<u>36,665</u>			
Savings	51	x 20%	10	0.5
	<u>36,716</u>			
Savings	624	x 40%	250	0.5
	<u>37,340</u>		<u>8,068</u>	
Add tax retained on patent royalties: £1,000 x 22%			<u>220</u>	1
Tax liability			8,288	
Less tax deducted at source:				
Savings (£675 x 20%)			(135)	1
PAYE			<u>(7,900)</u>	0.5
Tax payable			<u><u>£253</u></u>	<u>10</u>

(b)

Tax Advisors Ltd
Glasgow
12 June 2007
Reference: XXX

Rebecca
The Avenue
Glasgow

Dear Rebecca

Appeals procedure

Thank you for your recent letter asking for information regarding the appeals procedure for your recent tax assessment.

The first step is to appeal to the HMRC inspector, in writing within 30 days. The appeal must state the grounds on which the appeal is based. 2

You are required to pay the tax requested unless you also ask for the postponement of the tax at the same time as the appeal is due. 2

If you do not agree with the inspector's decision the next step is to appeal to the commissioners. There are two types of commissioners, the general commissioners who usually hear appeals based on straightforward matters, and the special commissioners who generally hear appeals on more complex points of law. 1
2

A decision made on a matter of fact is final, but a decision on a point of law can be appealed further via the court system. 2

You should bear in mind that you may have to meet all costs yourself as, even if you win, costs may not be awarded. 2

If I can be of further assistance please do not hesitate to contact me.

Yours sincerely

Tax Technician

1 mark for each valid point – maximum of 8
Marks may be awarded for other relevant points
Style and presentation

2
10

(c) Simon – Lease deduction

Amount taxable on landlord:

	£	
Premium	16,000	
2% (16 – 1) x £16,000	(4,800)	
Property business income	<u>£11,200</u>	

2

1

Simon's deduction:

<u>£11,200</u>	= £700 per annum	<u>1</u>
16		<u>4</u>

34**2 (a) Beach Ltd – Capital allowances for the year ended 31 December 2006**

	FYA	General pool	Expensive car	Short life asset	CAs	
	£	£	£	£	£	
Balances brought forward		28,000				0.5
Purchases:						
Car			18,800			1
Computer (£4,935 x 40/47)				4,200		1
Van (£15,275 x 40/47)	13,000					1
Disposals:						
Machine (£7,050 x 40/47)		(6,000)				1
	<u>13,000</u>	<u>22,000</u>	<u>18,800</u>	<u>4,200</u>		
WDA – 25%		(5,500)	(3,000)		8,500	1.5
FYA – 40% x £4,200				(1,680)	1,680	1
FYA – 50% x £13,000	(6,500)				6,500	1
Transfer	(6,500)	6,500				
Balances carried forward		<u>£23,000</u>	<u>£15,800</u>	<u>£2,520</u>		
Capital allowances					<u>£16,680</u>	<u>8</u>

(b) Coastal Activities Ltd – Profits chargeable to corporation tax for the years ended 30 June 2003 to 31 March 2007

	Accounting periods ended					
	30 June 2003	30 June 2004	31 March 2005	31 March 2006	31 March 2007	
	£	£	£	£	£	
Trading profit	16,000	15,000	9,000	8,000	nil	1
Investment income	1,000	800	600	200	–	1
Capital gains	4,000	–	–	–	2,000	1.5
	<u>21,000</u>	<u>15,800</u>	<u>9,600</u>	<u>8,200</u>	<u>2,000</u>	
Loss relief – S393 A(1)	(5,250)	(15,800)	(9,600)	(8,200)	(2,000)	3
	<u>15,750</u>	nil	nil	nil	nil	
Gift aid	(100)	–	wasted	–	wasted	1.5
Profits chargeable to corporation tax	<u>£15,650</u>	<u>nil</u>	<u>nil</u>	<u>nil</u>	<u>nil</u>	<u>8</u>

		£	
Loss memo:	31 March 2007	42,000	
	31 March 2007	(2,000)	
	31 March 2006	(8,200)	
	31 March 2005 (9 months)	(9,600)	
	30 June 2004	(15,800)	
	30 June 2003 (£21,000 x 3/12)	(5,250)	
		<u>£1,150</u>	wasted

	£	£	Marks
(c) Sea, Sand and Surf Ltd – Value added tax for the quarter ended 31 December 2006			
Output tax:			
Standard rated sales £120,000 x 17.5%		21,000	1
Input tax:			
Purchases of goods for resale £58,000 x 17.5%	10,150		1
Electricity £3,525 x 7/47	525		1
Accountant's fees £1,410 x 7/47	210		1
Bad debts £600 x 17.5%	105	(10,990)	1
VAT payable		£10,010	0.5
Wages – outside the scope of VAT			0.5
Insurance – exempt			0.5
Bad debt in July 2006 – not six months old			0.5
			7
			23

3	(a)	Aaron – Capital gains tax for the tax year 2006–07	
	Bronze statuette:	£	
	Proceeds	7,200	
	Cost	(4,100)	
		£3,100	1
	Restricted to:		
	(£7,200 – £6,000) x 5/3rds	£2,000	1.5
	No taper relief – owned for less than three years		
	Gift of shares:	£	
	Proceeds 143p* x 12,000	17,160	
	Cost	(6,600)	
		£10,560	1
	Taper relief – owned for five years – 85%		
	* share value is lower of:		0.5
	1/4 up		
	140p + 1/4(152p – 140p) =	143p	1
	or		
	Average		
	1/2(139p + 155p) =	147p	1
	Tax payable:		
	Loss used against statuette – disposal with the least taper		
		£	
	£2,000 – £800 (capital loss brought forward)	1,200	1
	£10,560 x 85% (taper)	8,976	1
	Chargeable gains	10,176	
	Annual exemption	(8,800)	1
	Taxable gains	£1,376	
	Capital gains tax at 40%	£550	1
			10

(b) (i)	Adele – Compensation receipt		
		£	
	Proceeds	29,000	
	Cost	(24,500)	
		<u>4,500</u>	
	Chargeable now (amount not reinvested)	(1,000)	
	Deferred to replacement	<u>£3,500</u>	2
	Taper relief 85% (five years)		
	Gain £1,000 x 85%	<u>£850</u>	1
(ii)	Base cost of new painting		
		£	
	Cost	28,000	
	Deferred	(3,500)	
		<u>£24,500</u>	1
			<u>4</u>

(c) (i)	Vernon – Principal private residence relief					
	Period	Chargeable	Exempt	Let	Reason	
	1 June 1997–30 April 1998		x		Owner occupied	1
	1 May 1998–30 April 2002		x		Working elsewhere in UK – maximum of four years	1
					HMRC will not normally insist on re-occupation for periods involving working elsewhere in UK	
	1 May 2002–31 August 2003	x		x	Did not re-occupy – three years for any reason does not apply	1
	1 September 2003–31 August 2006		x		Last three years of ownership	1
						<u>4</u>

(ii) Maximum letting relief	
Letting relief is the lower of:	
An amount equal to the principal private residence relief	1
The amount of the gain attributable to the letting period	1
A maximum amount of £40,000	1
	<u>3</u>
	<u>21</u>

4 (a) Leon – Adjusted trading profit for the year ended 31 October 2006		£	£	Marks
Net profit per accounts			38,300	0.5
<i>Deduct:</i>				
Interest received			(240)	0.5
Rent received			(4,400)	1
			<u>33,660</u>	
<i>Add back:</i>				
Wages – Drawings (Leon)	26,500			0.5
Emily (w1)	832			1
Lighting and heating (£720 x 60%)	432			0.5
Council tax	800			0.5
Depreciation (£600 + £400)	1,000			1
Loan to former employee written off	180			0.5
Donations – Oxfam	200			0.5
Legal fees – outstanding rent collection	300			0.5
Car expenses:				
Parking fees (Leon)	120			0.5
Running costs (£2,400 x 70%)	1,680			0.5
Miscellaneous – Gifts	230			0.5
Loss on sale of machinery	200			0.5
			<u>32,474</u>	
			66,134	
Goods for personal use (£1,400 x 100/80)			<u>1,750</u>	1
			67,884	
Capital allowances			(2,400)	0.5
Adjusted trading profit			<u>£65,484</u>	
Items unadjusted				
Staff salaries				0.5
Employer's NIC				0.5
Business rates				0.5
Church donation				0.5
Trade debt collecting				0.5
Staff fines				0.5
Advertising/Telephones				0.5
				<u>14</u>
Working 1				
		£		
Paid		4,992		
Equivalent amount due: (16 x 40) x £6.50 per hour		(4,160)		
Adjustment required		<u>£832</u>		

(b) Leon – National insurance contributions (NIC)			
Class	Calculation based on	Payable to HMRC by	Marks
In respect of staff:			
1 (primary) (Employee)	Cash payments	19th of the month following payment to employee	2
1 (secondary) (Employer)	Cash payments	19th of month following payment to employee	1.5
In respect of Leon:			
2	Weekly rate of £2.10	Monthly or quarterly billing	1.5
4	Taxable profits less loss relief claimed	Payment on account – 31 January in the tax year Payment on account – 31 July following the tax year Balance – 31 January following tax year	3
			<u>8</u>
			<u>22</u>