

# Preparing Taxation Computations

(UK Stream)

ACCA CERTIFIED ACCOUNTING TECHNICIAN EXAMINATION

ADVANCED LEVEL

TUESDAY 12 JUNE 2007

## QUESTION PAPER

Time allowed **3 hours**

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

Tax rates and allowances are on pages 2–4

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

Paper T9(GBR)



**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

**Personal pension contribution limits**

Annual allowance	£215,000
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The maximum contribution that can qualify for tax relief without any 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.

Calculations and workings need only be made to the nearest £.

All apportionments should be made to the nearest month.

All workings should be shown.

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

- 1 (a) Stephen, aged 47, married his wife, Rebecca, 14 years ago. Both Stephen and Rebecca work for the same company. Stephen is a departmental manager and earns a gross salary of £47,000 per annum. Rebecca, who was employed by the same company from 6 April 2006 onwards, is a sales manager and earns a gross salary of £40,700 per annum.

Stephen received taxable non-cash benefits amounting to a total of £2,400 for the tax year 2006–07 and bonuses of £4,000 paid in May 2006 and £5,000 paid in May 2007. These bonuses were paid in respect of the company’s accounting periods ending 30 November 2005 and 30 November 2006, respectively.

Rebecca received taxable non-cash benefits totalling £2,000, but did not receive any bonuses during the tax year 2006–07.

Stephen pays 5% of his gross salary each year into the company pension scheme. The company contributes an amount equal to 2% of Stephen’s gross salary into the same scheme.

Rebecca is not a member of the company pension scheme. Instead, she pays gross contributions, equal to 8% of her total gross employment income, into a personal pension plan.

During 2006–07 the company deducted income tax of £11,100 from Stephen’s earnings and £7,900 from Rebecca’s earnings, under PAYE.

Stephen and Rebecca received the following amounts of interest in the tax year 2006–07:

	Stephen	Rebecca
	£	£
UK bank interest	240	160
National Savings Certificate interest	400	–

The amounts shown are the cash amounts received.

Stephen and Rebecca also have a joint building society account from which they received a total of £760 (after deduction of tax) in interest for the tax year 2006–07.

Rebecca has also paid patent royalties amounting to £780 (cash amount paid) during 2006–07, in respect of a former sole trader business, which had ceased in March 2006.

**Required:**

- (i) Calculate the income tax payable by Stephen for the tax year 2006–07; (10 marks)
- (ii) Calculate the income tax payable by Rebecca for the tax year 2006–07. (10 marks)
- (b) Rebecca has recently received an amendment to her tax self-assessment for the year 2005–06 which says she has underpaid tax of £1,350 and she intends to appeal.
- She has asked you, as her tax advisor, to outline the appeals procedure.

**Required:**

**Write a letter to Rebecca (using fictitious addresses) outlining the appeals procedure that she must follow.**

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

(10 marks)

- (c) Rebecca’s brother, Simon, intends to start a new business soon. He will lease a small workshop for business purposes, paying a lease premium of £16,000 for a 16-year lease.

**Required:**

**Calculate the amount Simon will be able to deduct each year from his business profits in respect of this premium.** (4 marks)

**(34 marks)**

- 2 (a) Beach Ltd is a UK resident company manufacturing surfboards, water skis and other water sports equipment. Beach Ltd is a registered company for value added tax (VAT) purposes.

Beach Ltd had the following capital transactions during the company's twelve-month accounting period ended 31 December 2006:

Purchases:

- 12 February 2006 – A car costing £18,800 (note 2)
- 19 March 2006 – A computer costing £4,935 (note 3)
- 30 October 2006 – A delivery van costing £15,275

Disposals:

- 12 May 2006 – A machine sold for £7,050. (note 4)

Notes:

1. All amounts shown are stated inclusive of VAT
2. The new car was for the sole use of a director who will use it 40% for business purposes and 60% for private purposes.
3. The computer is to be treated as a short life asset.
4. The machine sold had originally cost £9,400 in August 2005.
5. The balance brought forward on the plant and machinery pool, for capital allowances purposes, on 1 January 2006 was £28,000.
6. Beach Ltd satisfies the conditions for small company status for capital allowance purposes.

**Required:**

**Calculate the maximum capital allowances claimable by Beach Ltd for the twelve-month accounting period ended 31 December 2006.** (8 marks)

- (b) Coastal Activities Ltd, which had been trading for the last fifteen years, decided to cease trading on 31 March 2007, because of falling profits and strong competition.

Coastal Activities Ltd had the following results in its last five accounting periods.

	Year ended 30 June 2003	Year ended 30 June 2004	9 months ended 31 March 2005	Year ended 31 March 2006	Year ended 31 March 2007
	£	£	£	£	£
Trading profit	16,000	15,000	9,000	8,000	–
Trading loss	–	–	–	–	(42,000)
Investment income	1,000	800	600	200	–
Capital gain	4,000	–	–	–	3,000
Capital loss	–	–	–	(1,000)	–
Gift aid payment	(100)	–	(100)	–	(100)

**Required:**

**Calculate the final profits chargeable to corporation tax (PCTCT) for each of the above accounting periods, on the assumption that Coastal Activities Ltd will claim the maximum loss reliefs available.**

Note: You are NOT required to calculate the amount of corporation tax due or repayable.

(8 marks)

- (c) Sea, Sand and Surf Ltd (SSS Ltd) is a UK registered company. SSS Ltd is registered for value added tax (VAT). During the three-month period ended 31 December 2006, SSS Ltd carried out the following transactions:

	£
Sales (exclusive of VAT, where applicable):	
Standard-rated	120,000
Zero-rated	18,000
Purchases: (exclusive of VAT)	
Goods for resale (all standard-rated)	58,000
Expenses (inclusive of VAT, where applicable):	
Wages of staff	28,000
Electricity	3,525
Accountancy fees	1,410
Buildings insurance	940

Bad debts totalling £1,400 (exclusive of VAT) were written off during the above period. This amount comprised two debts, one for £600, due to have been paid in May 2006, and one for £800 due to have been paid in July 2006.

**Required:**

**Calculate the value added tax (VAT) payable or reclaimable by Sea Sand and Surf Ltd for the three-month period ended 31 December 2006.** (7 marks)

**(23 marks)**

**3 (a)** Aaron made the following disposals of capital items in the tax year 2006-07:

15 June 2006: A bronze statuette was sold for £7,200. The statuette had originally cost £4,100 in May 2004.

14 August 2006: His entire holding of 12,000 shares in ABC plc, a UK trading company quoted on the stock exchange, was given to his friend Adele. The shares had cost Aaron £6,600 in May 2001.

On 14 August 2006 ABC plc shares had a closing price of 140p–152p. Marked bargains during the day had been: 139p, 143p 148p and 155p.

Both the shares and the statuette were classed as non-business assets for the purposes of taper relief.

Aaron had unused capital losses of £800 brought forward from the tax year 2005–06.

Aaron had taxable income for 2006–07 of £38,000.

**Required:**

**Calculate Aaron's capital gains tax payable for the tax year 2006–07.** (10 marks)

**(b)** Adele purchased a painting in May 2001 for £24,500. It was destroyed by fire in December 2006. Adele received £29,000 compensation from an insurance company and immediately reinvested £28,000 in another painting to replace the one destroyed.

**Required:**

**(i) Calculate the chargeable gain arising in 2006–07;** (3 marks)

**(ii) State the base cost of the replacement painting.** (1 mark)

**(c)** Vernon purchased a house, as his only residence, on 1 June 1997 and occupied it immediately. Between 1 May 1998 and 31 August 2006 Vernon was required, by his employer, to take up a temporary post in another UK city. During this period Vernon let his house to tenants and occupied a flat, provided by his employer, near to his temporary post.

On 31 August 2006 Vernon sold his house, without ever re-occupying it, and went to live with his mother in Scotland.

**Required:**

**(i) State, giving reasons, in respect of Vernon's entire period of ownership, the dates of each period covered by, or not covered by, either principal private residence (PPR) relief or letting relief;**

Note: The calculation of PPR relief is not required.

(4 marks)

**(ii) State how the maximum amount allowed for letting relief is calculated.**

Note: You are not required to calculate the amount of letting relief available.

(3 marks)

**(21 marks)**



- 4 (a) Leon operates a small unincorporated business in Yorkshire. His most recent set of accounts was for the year ended 31 October 2006 and showed the following results:

	Notes	£	£
Gross operating profit		110,000	
<i>Add:</i>			
Interest received (net)	1	240	
Rental income received	2	4,400	
			114,640
<i>Less expenses:</i>			
Wages and salaries	3	67,590	
Lighting and heating	4	720	
Rates	5	2,000	
Depreciation – vehicles		400	
– machinery		600	
Loan to a former employee written off		180	
Bank overdraft interest		140	
Donations	6	300	
Legal fees	7	700	
Motor car expenses	8	2,580	
Miscellaneous expenses	9	930	
Loss on sale of machinery		200	
			(76,340)
Net profit per accounts			<u>£38,300</u>

Notes:

- The interest received is the amount due on cash deposited with a local building society.
- The rental income represents the amount received on a small workshop let to another trader. The annual rent due is £4,800 and the tenant paid the £400 outstanding amount in March 2007.
- Wages and salaries comprise the following:

	£
Gross payments of salary to staff	34,508
Employer's national insurance contributions	1,590
Drawings by Leon	26,500
Payments to Emily (Leon's wife)	4,992
	<u>£67,590</u>

Emily works 16 hours a week for 40 weeks a year. Other staff on similar contracts receive £6.50 per hour.

- Leon and Emily live in a flat above the business premises. HM Revenue and Customs (HMRC) have agreed that 60% of the total heating and lighting cost incurred had been used in the flat and 40% in the business.
- Rates comprise the following:

	£
Council tax for the flat	800
Business rates for the shop	1,200
	<u>£2,000</u>

6. Donations during the year were made to the following:

	£
Oxfam – a registered charity (Gift aid)	200
A local church	100
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	£300

7. Legal fees comprise £400 for trade debt collection and £300 for legal work regarding the collection of the outstanding rent.

8. Motor car expenses comprise the following:

	£
Running costs (including petrol)	2,400
Parking fines – Leon	120
– Staff	60
(both fines occurred whilst the individuals were on business purposes)	
	<hr/>
	£2,580

HMRC has agreed that the motorcar running costs are to be split 70% for private use and 30% for business use.

9. Miscellaneous expenses comprise the following:

	£
Advertising	300
Telephone calls (all business)	400
Gifts to customers (bottles of whisky costing £11.50 each)	230
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	£930

10. Capital allowances for the period have been calculated as £2,400.

11. Leon took goods from stock for his own use. These goods had cost £1,400 and this amount is included in the purchases total, but has not been included in the sales total. The profit margin on these goods is 20% of the selling price.

**Required:**

**Calculate Leon's adjusted trading profit for the year ended 31 October 2006.** (14 marks)

**(b)** Leon's understanding of national insurance contributions (NIC) is very poor. He knows he must account for and pay NIC in respect of himself and his staff but does not know how to do this.

All of his staff are paid monthly and none receive any benefits.

**Required.**

**List the classes of national insurance contributions (NIC) that Leon must account for, for both himself and his staff. In each case state on what income they are calculated and by when they should be paid to HMRC.**

**Note:** You are not required to calculate the actual amounts of NIC due.

(8 marks)

**(22 marks)**

**End of Question Paper**