Certified Accounting Technician Examination
Advanced Level

# Preparing Taxation Computations (UK Stream)

Tuesday 10 June 2008

**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)

ACCA

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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–£2,230 | 10% |
| Basic rate | £2,231–£34,600 | 22% |
| Higher rate | £34,601 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 | 5,225 |

### 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: Cars

| | |
|---|---|
| Up to 10,000 miles | 40p |
| Over 10,000 miles | 25p |

### Pension scheme limits

| | |
|---|---|
| Annual allowance | £225,000 |

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

### Official rate of interest

6·25%

## 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 is increased to 50% for the period from 1 April 2006 to 31 March 2008 (6 April 2006 and 5 April 2008 for unincorporated businesses).

| | % |
|---|---|
| Industrial buildings | |
| Writing down allowance | 4 |

## Corporation tax

| Financial year | 2005 | 2006 | 2007 |
|---|---|---|---|
| Small companies rate | 19% | 19% | 20% |
| 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 | 1/40 |

## Marginal relief

(M – P) x I/P x marginal relief fraction

## Value added tax

| | £ |
|---|---|
| Registration limit | 64,000 |
| Deregistration limit | 62,000 |

## Capital gains tax: annual exemption

| | |
|---|---|
| Individuals | £9,200 |

**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–£5,225 per year | Nil |
| | £5,226–£34,840 per year | 11·0 |
| | £34,841 and above per year | 1·0 |
| Class 1 employer | £1–£5,225 per year | Nil |
| | £5,226 and above per year | 12·8 |
| Class 1A | | 12·8 |
| Class 2 | £2·20 per week | |
| Class 4 | £1–£5,225 per year | Nil |
| | £5,226–£34,840 per year | 8·0 |
| | £34,841 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)** Paul is aged 52 and has been married to Susan, who is 51, for the past twenty years. He works as a customer relations manager for a large UK resident company. His annual salary is £42,000 and he has received bonuses of £5,000 and £6,000 on 1 May 2007 and 1 May 2008 respectively. These bonuses were paid in respect of the company's years ending 31 March 2007 and 31 March 2008.

In addition Paul received the following benefits in the tax year 2007–08:

– The use of a company owned house for him and his family. The company purchased the house on 14 June 2004 for £159,000. Paul first moved into the house on 2 October 2006 when it had a market value of £260,000. Paul has occupied the house throughout 2007–08 paying rent to the company of £400 per month. The rateable value of the house is £3,000. The house is not job-related. Paul pays for all of the household expenses.

– A payment of 45p per mile for the business use of Paul's own car. Paul received this for a total of 12,000 miles in the tax year 2007–08 of which 9,000 have been on business trips and 3,000 on travelling to and from work. Paul's place of work is not temporary.

– Workplace parking. This was calculated as worth £6 per day for each of the 215 days that Paul attended work during the tax year 2007–08.

– Free private medical insurance. This had cost the company £800 for the tax year 2007–08, it would have cost Paul £960 if he had arranged the cover himself.

– The use of a company owned computer. Paul has been provided with a computer to use at home for both business and private usage. Paul estimated that the private usage amounted to 40% and the business usage 60%. The computer was first provided in May 2006 when it had a market value of £2,400 and Paul has used it throughout the whole of the tax year 2007-08.

Paul's company deducted £9,280 income tax (PAYE) from Paul's income during the tax year 2007–08.

Paul's other income for the tax year 2007–08 was:

| | |
|---|---|
| Bank interest | £4,800 |
| Dividends from UK companies | £1,800 |
| Building society interest | £800 |

The bank interest is from an account held in joint names with his wife Susan and is the total amount due for both Paul and Susan. The building society interest is from an Individual Savings Account (ISA). All three amounts shown are the cash amounts received or credited to the accounts.

Paul paid £156 (net) to a UK registered charity under the gift aid scheme and a fee of £380 to an HM Revenue & Customs (HMRC) approved relevant professional body, required for his position in the company. Both of these payments were made during December 2007.

**Required:**

**Calculate the income tax payable by Paul for the tax year 2007–08.** (19 marks)

**(b)** Charlie owns a house, which he rents out fully furnished. It is not rented out as furnished holiday accommodation.

The house had been rented for £800 a month for the two years up to 31 December 2007. The same family had been occupying the house during this period and all the rent had been paid with the exception of the last amount due for December 2007. Despite all possible attempts to recover this month's rent it still remains unpaid and it is doubtful that it will ever be collected.

From 1 January 2008 a new tenant occupied the property and the rent was increased to £880 per month. The rent due for January 2008 and February 2008 was paid on time but the rent for March 2008 was not paid until 24 April 2008.

Charlie's expenditure in respect of the house was:

– House contents insurance: £600 in January 2007 and £800 in January 2008. Both amounts were paid in advance for the year to come.

– Letting agent's commission: 10% of the gross rents receivable (including those outstanding).

– Minor repairs: £250 in August 2007

– Water rates: £300 for the period 1 April 2007 to 31 March 2008.

– A new entrance porch: £1,500 in June 2007

Charlie always claims wear and tear allowance for the furniture.

**Required:**

**Calculate the amount assessable on Charlie in respect of business property income for the tax year 2007–08.** (8 marks)

**(c)** Paul wants to start making contributions to a pension plan. His employer has advised him that they have an HMRC registered occupational pension scheme that he can join. However, a friend has told him that both he and his employer can contribute to a personal pension plan instead.

He has asked you, as his tax advisor, for information on the two forms of pension scheme. You have arranged a meeting with Paul to discuss the information he requires.

**Required:**

**Write brief notes, to be used at a meeting with Paul, explaining the following points:**

– **The maximum contributions allowed per year.**
– **The method(s) of him obtaining relief.**
– **The tax effects, if any, of the company making contributions to the plans on his behalf.**

**Note: your answer should only cover the above points. You are not required to mention the rules on receiving benefits on retirement.**

(8 marks)

**(35 marks)**

**2 (a)** ACC Ltd is a UK registered company. During its eight-month accounting period from 1 May 2007 to 31 December 2007 the company had the following trading results:

| | Note | £ | £ |
|---|---|---|---|
| Operating profit | | | 940,000 |
| Loan interest | 1 | 20,000 | |
| UK dividends | | 9,000 | 29,000 |
| | | | 969,000 |
| Expenses: | | | |
| Legal expenses | 2 | 20,000 | |
| Administration costs | 3 | 92,000 | |
| Loan interest | 4 | 5,000 | |
| Overdraft interest | | 8,000 | |
| Depreciation | | 32,000 | |
| Motoring expenses | 5 | 28,700 | |
| Wages | | 400,000 | |
| Donations | 6 | 7,000 | |
| Staff pension contributions | 7 | 30,000 | (622,700) |
| Net profit | | | £346,300 |

Notes:

(1) The loan interest income is in respect of 5% debentures purchased in 2005 as a long-term investment. The amount shown includes an accrued figure of £2,000 for an amount still owed to the company at 31 December 2007.

(2) The legal expenses comprise:

| | |
|---|---|
| Costs of defending the company's title to a fixed asset | £6,000 |
| Fine for breaking the Health and Safety at Work Act | £10,000 |
| Legal fees for preparing staff contracts | £4,000 |

(3) Included within the administration costs are:

| | |
|---|---|
| Gifts of 300 Christmas food hampers to customers | £11,500 |
| Entertainment of staff | £2,600 |

(4) The loan interest paid is in respect of a loan of £100,000 borrowed to finance the purchase of fixed plant and machinery used in ACC Ltd's trade. The loan was obtained in 2004. The total amount due for the period ended 31 December 2007 is as shown in the accounts.

(5) Motoring expenses include:

| | |
|---|---|
| Parking fines incurred by employees on company business | £300 |
| Director's car expenses of which 40% is in respect of private journeys | £2,400 |
| Lease payments for the car used by the commercial manager for the eight-month period. | £6,000 |

(The list price of the car, which is not low emission, is £20,000).

(6) The donations comprise: £2,000 to a national charity; and £5,000 to the local Chamber of Commerce.

(7) The pension contributions are in respect of contributions to a HM Revenue & Customs (HMRC) registered occupational pension plan for the company's employees.

(8) The tax written down values of the general plant and machinery pool and an expensive car as at 1 May 2007 were £290,000 and £16,000 respectively. The car is the car (in note 5) used by the director.

The following purchases and disposals of capital items were made by the company during the period ended 31 December 2007:

Purchases:

31 May 2007 – New machinery costing £35,000.
17 August 2007 – A new computer costing £6,000 (to be treated as a short life asset).

Disposals:

12 June 2007 – Machinery for £14,000 (original cost £12,000).

In addition to the above, the expensive car, which had originally cost £19,000, was traded in on 31 December 2007 for £8,000 against the cost of a new car, for which a further £3,000 was paid by the company. The new car is not a low emission car and will not be used for private journeys.

ACC Ltd qualifies as a small company for capital allowances purposes.

**Required:**

**(i) Calculate the maximum capital allowances claimable by ACC Ltd for the eight-month period ended 31 December 2007.** (8 marks)

**(ii) Calculate ACC Ltd's adjusted trading profits, after capital allowances, for the eight-month period ended 31 December 2007.** (11 marks)

**(b)** BDD Ltd is a UK trading company, which has always paid tax at the full rate. For its accounting year ended 31 March 2008 BDD Ltd had profits chargeable to corporation tax (PCTCT) amounting to £1,800,000. This amount was identical to the figure of profits forecast at the beginning of April 2007.

**Required:**

**Calculate the amount of corporation tax due by BDD Ltd and state the due dates of payment of the tax paid in respect of the year ended 31 March 2008.** (5 marks)

**(24 marks)**

**3 (a)** Alberto, a UK resident, made the following disposals of capital assets during the tax year 2007–08:

14 May 2007: A statuette of a French musketeer was sold for £18,000. The statuette had been part of a set of three, which had been purchased on 10 January 2005 for a total cost of £32,000. Alberto incurred selling expenses of £1,000. The market value of the remaining two statuettes on 14 May 2007 was £45,000.

19 July 2007: A painting was sold for £3,000. The painting had been purchased in June 2005, when it was mistakenly thought to be a rare portrait, for £9,000.

22 January 2008: 6,000 shares in EFG Ltd were sold for £38,000. Alberto had purchased 4,000 shares in September 2002 for £5,600. EFG Ltd had made a 1 for 1 bonus issue to its shareholders in May 2004. The shares in EFG Ltd should be regarded as business assets for taper relief purposes.

Alberto had unused capital losses of £1,000 brought forward from the tax year 2006–07.

Alberto's taxable income (after personal allowances) for the tax year 2007–08 was £33,900.

**Required:**

**(i) Calculate the capital gains/losses (before taper relief) arising on each of the above disposals;** (7 marks)

**(ii) Calculate the capital gains tax payable by Alberto for the tax year 2007–08 and state the due date of payment.** (8 marks)

**(b)** Sandra has run a small manufacturing business for several years.

On 16 August 2007 she sold a factory, which had always been used in her business, for £220,000. It had originally been purchased in May 2002 for £140,000.

On 10 June 2007 Sandra had invested £210,000 in fixed plant and machinery, which was to be used in her business.

Sandra wishes to claim all available reliefs.

**Required:**

**(i) Calculate Sandra's chargeable gain (after taper relief) on the disposal of the factory;** (3 marks)

**(ii) State when any deferred gain will become chargeable.** (3 marks)

**(21 marks)**

**4** **(a)** Sean and Lauren have been in partnership for several years making up accounts to 31 December every year.

On 1 January 2007 Helena was admitted as a full partner.

Prior to 1 January 2007 profits and losses had always been shared equally but from 1 January 2007 the profit sharing ratio was changed to 2:2:1 between Sean, Lauren and Helena respectively.

No salaries or interest on capital are paid.

Recent adjusted trading profits have been:

| | |
|---|---|
| Year to 31 December 2006 | £18,000 |
| Year to 31 December 2007 | £25,000 |

**Required:**

**For each partner calculate the trading profit assessable to tax for each of the tax years 2006–07 and 2007–08, clearly identifying any overlap profits.** (6 marks)

**(b)** Nicole has been trading as a sole trader for several years. For the accounting year to 31 August 2007 she made an adjusted trading loss, after capital allowances, of £18,000.

Prior to this year Nicole has always made a profit and she expects to make profits in all future years.

In addition to her income as a sole trader, Nicole receives investment income of approximately £3,000 every year.

**Required:**

**In respect of Nicole's loss for the year ended 31 August 2007, state the tax years in which the loss can be used and the type(s) of income it can be used against in each case.**

**Note: you are not required to calculate the effect of any use of the loss or suggest the best alternative.** (7 marks)

**(c)** Yee-ling is a sole trader and has recently registered for value added tax (VAT).

Yee-ling understands that it is important to use the correct deemed date of sale i.e. the tax point. Recently she sold stock for £3,000. A £400 payment in advance had been received on 28 May 2007 and the stock was delivered on 24 June 2007. Yee-ling sent an invoice for the balance due of £2,600 on 2 July 2007 and received this amount from the customer on 1 August 2007.

Yee-ling is not in the cash accounting scheme.

**Required:**

**(i) State how the tax point (time of supply) is determined for the purposes of VAT;** (3 marks)

**(ii) State, giving reasons, the tax point(s) in respect of the above transaction made by Yee-ling;** (2 marks)

**(iii) Give two reasons why it is important to determine the right tax point.** (2 marks)

**(20 marks)**

**End of Question Paper**