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# Taxation I Northern Ireland

1<sup>st</sup> Year Examination

**May 2010**

**Paper, Solutions & Examiner's Report**



### NOTES TO USERS ABOUT THESE SOLUTIONS

The solutions in this document are published by Accounting Technicians Ireland. They are intended to provide guidance to students and their teachers regarding possible answers to questions in our examinations.

Although they are published by us, we do not necessarily endorse these solutions or agree with the views expressed by their authors.

There are often many possible approaches to the solution of questions in professional examinations. It should not be assumed that the approach adopted in these solutions is the ideal or the one preferred by us. Alternative answers will be marked on their own merits.

This publication is intended to serve as an educational aid. For this reason, the published solutions will often be significantly longer than would be expected of a candidate in an examination. This will be particularly the case where discursive answers are involved.

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## Accounting Technicians Ireland

### 1<sup>st</sup> Year Examination : Summer 2010

### Paper : TAXATION I (Northern Ireland)

Thursday 20th May 2010 : 9.30 a.m. to 12.30 p.m.

#### INSTRUCTIONS TO CANDIDATES

#### *PLEASE READ CAREFULLY*

For candidates answering in accordance with the law and practice of Northern Ireland.

Candidates should answer the paper in accordance with the appropriate provisions up to and including the Finance Act 2009. The provisions of the Finance Act 2010 should be ignored.

Allowances and rates of taxation to be used by candidates are set out in a separate booklet supplied with the examination paper.

Answer **ALL THREE QUESTIONS** in Section A, and **ANY TWO** of the **THREE** questions in Section B. If more than **TWO** questions are answered in Section B, then only the first two questions, in the order filed, will be corrected.

Candidates should allocate their time carefully.

All workings should be shown.

All figures should be labelled as appropriate e.g. £s, units etc.

Answers should be illustrated with examples, where appropriate.

Question 1 begins on Page 2 overleaf.

The following insert is enclosed with the paper:

- Tax Reference Material
- Form P11

**SECTION A****Answer ALL THREE questions in this Section****QUESTION 1** (*Compulsory*)

The following information relates to Fergus, Henry and Geoff, employees of Knot Limited, a company for whom you have been asked to carry out payroll duties. Details of their cumulative earnings, deductions and other relevant information, inclusive of month 3 of 2009/10 and salary details for month 4 are as follows:

	<b>Fergus</b> <b>£</b>	<b>Henry</b> <b>£</b>	<b>Geoff</b> <b>£</b>
Gross Cumulative Salary exclusive of deductions	13,669.50	5,250.00	3,125.00
Tax due to date	3,253.63	751.55	-
Tax Code	K19	596L	-
Company Pension Contributions	6%	NIL	6%
Payroll Giving Scheme deductions (per month)	30	-	-
Gross Salary Month 4	4,556.50	1,750	1,562.50

- (a) Henry has opted out of the Knot Limited Company pension scheme and makes contributions of £75 per month to a 'stakeholder' scheme that he had started when the government first introduced such schemes.
- (b) Geoff joined Knot Limited in month 2 but, as yet, Knot limited have not received a P45 in respect of his previous employment.

**Requirement**

- (i) Complete all relevant sections of form P11 with respect to PAYE and NIC deductions for Fergus, Henry and Geoff.

**18 Marks**

- (ii) Indicate the date by which Knot Limited are obliged to pay the deductions, calculated above, over to HMRC.

**2 Marks****Total 20 Marks**

**QUESTION 2** (*Compulsory*)

Alice Burns is an employee of Cleanbody Limited, a medical equipment company. She is a senior sales representative of the company and her remuneration package is made up of a basic salary, sales related commissions and an annual bonus.

During 2009/10 her salary was £32,000 and she received sales related commissions of £11,000 (PAYE deducted of £11,530). On 1<sup>st</sup> May 2009 Alice received a bonus of £3,750 based on her performance measured against targets for the accounting year of Cleanbody Ltd to 31<sup>st</sup> March 2009 and a further bonus of £3,900 on 1<sup>st</sup> May 2010 in respect of the company's accounting period to 31<sup>st</sup> March 2010.

Alice is provided with a Lexus GS saloon for which the company paid £37,500 in January 2009. The car has a list price of £41,950 and has a CO<sub>2</sub> emission rating of 179 gms/km. Cleanbody undertake to pay for all services and repairs to the vehicle (£875 during 2009/10), and petrol, although Alice is required to make a monthly payment of £75 to Cleanbody Limited which is deemed to consist of a £25 payment towards the running cost of the car and a £50 contribution towards fuel.

Since joining Cleanbody Limited in 2009/10, Alice has been living in a company owned flat near corporate headquarters. The apartment had cost the company £180,000 in 2007 and has a rateable value of £2,195. Alice is required to pay a nominal rent of £50 per month to the company. Cleanbody also paid the following expenses in connection with the apartment:

	<b>£</b>
<b>Telephone</b>	267
Broadband	150
Electricity	513

The company had a laptop on loan to Alice during the year. This is vital for the performance of Alice's duties although she does take the laptop home and uses it to access the internet for private use. The laptop had cost the company £650 just prior to lending it out to Alice in July 2008.

During 2009/10 Alice was in receipt of the following income:

	<b>£</b>
Dividends from Axis limited, a UK company	270
Building Society Interest	192
Interest accruing on ISA account	144

Alice made a gift aid payment in 2009/10 of £120 (net) to 'Save the Children'.

**Required**

Complete Alice's income tax computation showing clearly her main tax liability and any balance of tax owing or refundable.

**Total 20 Marks**

**QUESTION 3** (Compulsory)

You work for Partypack Ltd, a business which accounts for VAT in the normal manner. You have given responsibility for your employer's VAT return, for the quarter to 31 March 2010, to a recently joined accounting trainee. They have partially prepared the return but, as this is their first attempt at preparing a VAT return, they have emailed you with a list of queries (points (i) – (viii), below).

Any amounts stated in the trainee's query are inclusive of VAT unless they specifically mention otherwise.

- (i) The sales manager is provided with a company car. It is a Peugeot 407 HDi diesel with CO<sub>2</sub> emissions of 179 gms/km and the salesman had travelled 4,875 miles in the car during the quarter, 80% of which were for business purposes.

Can we claim input tax credit for the fuel paid for by the company or how should I treat this for the purposes of the VAT return?

- (ii) A new sales assistant was due to take up their post on 1<sup>st</sup> April and their new company car was delivered on 20<sup>th</sup> March. This car was a Peugeot 308 1.4 VTi petrol driven car and had a list price of £15,345, although the company had agreed a price of £14,900 with the dealer. A deposit of £2,500 was paid on 1<sup>st</sup> March for this vehicle and the VAT invoice was received for the balance on 2<sup>nd</sup> April. It is not known precisely what the extent of business or private use for this vehicle by the new sales assistant but it is expected to be similar to that of the sales manager.

How should we treat the *acquisition* of this vehicle with respect to VAT in this quarter?

- (iii) One of our customers, Gibb Ltd, had owed us £1,500 relating to a purchase they made from us on 3<sup>rd</sup> July 2009. The original invoice relating to this was dated 10<sup>th</sup> July 2009 and allowed 30 days credit terms. This sales invoice was accounted for in the VAT return to September 2009 and they have not responded to several demands for payment, the most recent of which was made on 8<sup>th</sup> March.

How should I deal with this in the VAT return?

- (iv) We have received a VAT invoice from the Good Vine Wine Bar for £535. This relates to the American clients we were looking after for two days during January, and specifically the meal they were treated to on the first night of their visit.

Can you explain the VAT treatment for this transaction?

- (v) The company bought goods from Biscit Ltd for £1,799 on 3<sup>rd</sup> January with a 5% discount offered for payment within 30 days. The payment was made on 31<sup>st</sup> January, although you have noticed that the invoice does not appear to have a VAT number.

How much input VAT can we reclaim on this transaction?

**QUESTION 3** (Cont'd)

- (vi) An electricity bill for £246 (net of VAT) has been received in respect of the home of one of the directors.

I assume that this is a benefit in kind. Can we reclaim input tax on this invoice?

- (vii) We had bought goods with a net cost of £1,200 on 27<sup>th</sup> March and have been offered 4% discount for payment within 30 days and a further 3.5% discount for payment within 10 days. The VAT invoice we received on 31<sup>st</sup> March does have a VAT registration number but I'm not sure about the amount of VAT included on the invoice.

How much input VAT can we reclaim on this purchase?

- (viii) We have tendered to supply a quantity of party outfits recently, which we quoted for sale at £180. These party packs consist of standard rate goods which cost the company £75 and tax exempt goods that cost the company £25. For the purposes of presenting to the potential buyer of these packs, the sales manager has contacted me seeking an explanation as to how we would be calculating the output VAT on sales of these packs.

Can you help me provide an explanation for the sales manager?

**Required**

- (a) Email the trainee providing an explanation of each of the items at (i) to (viii) above.

**16 Marks**

- (b) Remind the trainee of the date by which the VAT return is due and the need to present an accurate VAT return. Briefly remind them of the potential consequences for the company if the return is submitted late or if it includes inaccuracies.

**4 Marks**

**Total 20 Marks**

**SECTION B****Answer ANY TWO of the three questions****QUESTION 4**

Stanley, a self-employed friend of yours who sells equipment to the catering trade, is feeling the effects of the economic downturn and is looking at ways to save money despite having a modest income arising from some investments made some years ago. Stanley operates his business out of an annex to his home and drives extensively in his car to meet with clients and for various other work related reasons. Stanley's wife, Freda, gives secretarial support to Stanley's business but he doesn't otherwise have any employees. He has considered enrolling on a course at his local College to learn how to operate 'ELECACC', an accounting software package, and he believes that the cost of the course and the cost of the necessary software would be justified by the saving in accounting & book-keeping fees he should enjoy.

Stanley also wants to be able to prepare and submit his own tax returns and, to that end, he has approached you for a general explanation as to how to calculate his taxable income arising from his self-employment.

**Required**

E-mail Stanley addressing the following specific points with respect to his preparing an adjusted profits computation for his catering supply business as a first step in preparing his tax return;

- (i) How can Stanley decide if any given income or receipt is taxable as income from self-employment?
- (ii) How can Stanley decide if an expense is deductible for tax purposes or not? What are the broad principles relating to deductibility (or otherwise) of expenses for the purposes of calculating income from self employment?

Illustrate your explanation with examples of taxable and non-taxable income, deductible and non-deductible expenses.

**Total 20 Marks**



**QUESTION 5**

You are responsible for a portfolio of tax clients, four of whom recently commenced trade, all on 1<sup>st</sup> January 2008. Their details with respect to their initial trading periods and the relevant tax adjusted profits, after deduction of capital allowances are as follows;

- (a) **Joe** left his job as an architect and set up his own practice with the following results;

	£
Year end 31 <sup>st</sup> December 2008.....	66,376
Year ended 31 <sup>st</sup> December 2009.....	69,869

- (b) **George's** results in his 'UV free' tanning salon have been;

	£
9 months ended 30 <sup>th</sup> September 2008.....	34,488
Year ended 30 <sup>th</sup> September 2009.....	41,385

- (c) **Gino** has his own restaurant and his results have been;

	£
14 months ended 28 <sup>th</sup> February 2009.....	58,310
Year ended 28 <sup>th</sup> February 2010.....	50,479

- (d) **Justin** is an interior designer who had the following results;

	£
16 months ended 30 <sup>th</sup> April 2009.....	59,952
Year ended 30 <sup>th</sup> April 2010.....	53,957

**Requirement**

For each of your four tax clients, indicate the relevant tax years in which they will be assessed to tax with respect to the above results, the amount of the assessment in each year and the amount of overlap relief where any arises.

*Note: You may pro-rata by reference to months rather than days.*

**Total 20 Marks**

**QUESTION 6**

Zelda has approached you with a view to completing her income tax computation for 2009/10 and she has supplied you with the following information.

Zelda, who is widowed, was born on July 5<sup>th</sup> 1938 is in receipt of a pension from her late husband's employment and some savings income from savings and investments which she and her husband had made during their working life, as follows;

	<b>£</b>
Gross pension from her late husband's employment	10,036 (PAYE deducted £2,007)
State pension	5,460
Dividends received	1,800
Building society interest received	1,600
Bank Interest received	1,750

When Zelda's late husband died in 2006, he left an investment property, situated in Portstewart, equally to Zelda and their son Ralph. This house is rented to holidaymakers during the summer and students at other times of the year and produced income of £7,850 during 2009/10. The house is let through letting agents who charge a 10% commission. In respect of this property, Zelda and Ralph incurred repair expenditure of £260 and paid rates of £1,300 during 2009/10.

**Required**

Calculate the balance of income tax payable by, or refundable to, Zelda for 2009/10.

**Total 20 Marks**



# 1st Year Examination: May 2010

## Taxation I NI

### Suggested Solutions

**Students please note:** These are suggested solutions only; alternative answers may also be deemed to be correct and will be marked on their own merits.

#### Solution 1

(i)		Fergus (£)	Henry (£)	Geoff (£)
Gross Salary to Month 3		13,669.50	5,250	
Gross Salary Month 4		4,556.50	1,750	1,562.50
		18,226.00	7,000.00	1,562.50
Pension Contribution (6%)		-1093.56		-93.75
Payroll Giving		-120		
		17,012.44	7,000.00	1,468.75
Additional Pay	199 x 4/12	66.33		
Free Pay	5,969 x 4/12		-1989.67	
Free Pay	6,479 x 1/12			-539.92
Net Taxable Salary to Month 4		17,078.77	5,010.33	928.83

#### Taxed as per:

37,400 x 4/12				
=	12466.7 x 20% =	2493.33		
	4,612.10 x 40% =	1844.84		
	5,010.33 x 20% =		1002.07	
	928.83 x 20% =			185.77
Cumulative Total Tax Due to Month 4		4338.17	1002.07	185.77
Cumulative Tax Due to Month 3		-3253.63	-751.55	
Tax Due in Month 4		£ 1,084.54	£ 250.52	£ 185.77

#### National Insurance Contributions

##### Primary

(3,656 - 476) x 11%	349.8		
(4,556.50 - 3,656) x 1%	9.01		
(1,750 - 476) x 11%		140.14	
(1,562.50 - 476) x 11%			119.52
	£ 358.81	£ 140.14	£ 119.52

Taxation I NI  
**Solution 1**  
(Cont'd)

May 2010

1

**Secondary**

(4,556.50 - 476) x 12.8%	522.3		
(1,750 - 476) x 12.8%		163.07	
1,562.50 - 476) x 12.8%			139.07
Total NIC	<u>£ 881.11</u>	<u>£ 303.21</u>	<u>£ 258.59</u>

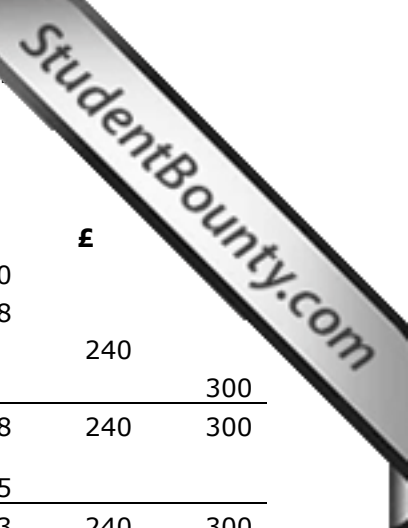
(ii)

PAYE returns are due (including payment) by the 19th of the following month (22nd for electronic returns).

This would be by the 19th (22nd) of month 5 for KNOT Ltd.

**Solution 2**

		<b>£</b>
<b>W1</b>	Gross Salary	32,000
	Commission	11,000
	Bonus	3,750
		<u>£ 46,750.00</u>
<b>W2</b>	<b>Car Benefit</b>	
	41,950 x 23%	9648.5
	less: Contribution (£25 x 12)	<u>-300</u>
		<u>£ 9,348.50</u>
<b>W3</b>	<b>Fuel Benefit</b>	
	16,900 x 23%	£ 3,887.00
<b>W4</b>	<b>Living Accomodation</b>	
	2,195 - (50 x 12)	£ 1,595.00
	£180,000 - £75,000 x 4.75%	<u>£ 4,987.50</u>
		£ 6,582.50
<b>W5</b>	<b>Telephone</b>	267
	<b>Broadband</b>	150
	<b>Electricity</b>	<u>513</u>
		£ 930.00
<b>W6</b>	<b>Laptop</b>	
	650 x 20%	£ 130.00
<b>W7</b>	<b>Car</b>	£ 9,348.50
	<b>Fuel</b>	£ 3,887.00
	<b>Living Accommodation</b>	£ 6,582.50
	<b>Telephone</b>	£ 267.00
	<b>Broadband</b>	£ 150.00
	<b>Electricity</b>	£ 513.00
	<b>Laptop</b>	<u>£ 130.00</u>
		<u>£ 20,878.00</u>
<b>W8</b>	<b>Extended Basic Rate</b>	
	£120 x 100/80	£ 150.00



**Income Tax Computation Alice 2009/10**

	£	£	
Salary/Bonus/Commission (W1)	46,750		
Benefits in Kind (W7)	20878		
Building Society Interest (192 x 100/80)		240	
Dividends x (270 x 100/90)			300
	67,628	240	300
Personal Allowance	-6475		
<b>Taxable Income</b>	<b>61,153</b>	<b>240</b>	<b>300</b>

<b>Taxed as Per</b>	37,400	x 20%	7480
	150	x 20%	30
	<u>23,603</u>	x 40%	9441.2
	61,153		
	240	x 40%	96
	300	x 32.5%	<u>97.5</u>
			17144.7
Less: Tax Credit			-30
Less: Tax Paid at Source			
PAYE			-11530
BSI			<u>-48</u>
			£
O/S Balance of Tax Due			<u>5,536.70</u>



(a)

**Mail to** <Trainee>  
**Sent** May 2010  
**From** <Accounting Technician>  
**Subject** VAT Issues

- (i) VAT on fuel purchased for use in the salesman's car is refundable. However, *output* VAT based on the fuel scale charge must be accounted for in the gross amount of £289.00. With a VAT rate of 17.5% this would be deemed to include VAT of £43.04 or £37.70 at 15%.
- (ii) Input VAT on vehicles is not refundable unless there is exclusively business use made of the vehicle. This would preclude the majority of vehicles with the exception of dual controlled driving school cars, hackney cabs and so forth.
- (iii) The invoice was originally due on 10<sup>th</sup> August 2009. Since six months have elapsed since this invoice was due, a bad debt relief claim is permissible. In other words, include this item as an input on the current VAT return.
- (iv) Input VAT on entertainment is not refundable.
- (v) The absence of a VAT number on this purchase invoice means that this transaction doesn't have supporting evidence and a VAT reclaim for this purchase is not permissible.
- (vi) No input VAT reclaim is possible in this instance as there is no business use relating to this invoice.
- (vii) Input VAT on this invoice should be given by the following calculation:

$£1,200 \text{ less } (7.5\%) \text{ } £90 = £1,100.$   
 $£1,100 \times 17.5\% = £194.25 \text{ (or } \times 15\% = £166.50)$   
Input VAT is therefore £194.25 (or £166.50), even if the discount offered isn't taken up.

- (viii) This is almost certainly a mixed supply given that the taxable & exempt components can be easily segregated. In which case, the potential output VAT would be given by the following calculation;

$£180 \times (75/100) \times 17.5\% = £23.63 \text{ (or } \times 15\% = £20.25)$   
Therefore, quote to sell for  $£180 + £23.63 = £203.63 \text{ (or } £200.25)$

**(b)**

To include the following points;

- The VAT return, with payment, is due within 30 days of the end of the relevant VAT quarter.
- If the return is submitted late then the taxable person will be issued with a surcharge liability notice (SLN).
- The SLN remains in force for 12 months. Any subsequent returns within this 12 month period, which are submitted late will have surcharges of 2%, 5%, 10% and 15% (of the VAT due in the return) imposed on them for the 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup> and 4<sup>th</sup> late return with the SLN period.
- Each subsequent late return sees the SLN period extended to a date 12 months from the date of that new late return.
- Interest can be charged on any overdue VAT where a return has not been submitted or is incorrect.
- Where the VAT return contains inaccuracies, penalties can be imposed ranging from 15% - 100% of the VAT not otherwise paid due to the inaccuracy. The exact rate of penalty depends on the circumstances of the inaccuracy and whether the taxable person has made full disclosure or not.

**Note:** Marks would be awarded for other equally valid points/interpretations made.



**Solution 4**

(i)

- Taxable income is that arising in the course of the business itself and would not include income taxable under another heading or exempt.
- For example, savings income, interest income, dividend income, other investment income, rental income and the proceeds of a betting or gaming win would not be taxed as business income.

(ii)

- The two most important rules for determining deductibility of an expense for tax purposes is that expenses must be incurred wholly and exclusively for the purposes of the trade and, secondly, they must be of a revenue (and not capital) nature.
- A sole trader cannot deduct an expense incurred with both a business & private use, such as clothing, which may perform a dual purpose, in this case of both being worn for business but also keeping the person warm and decent!
- Part of a *mixed* expense may be incurred wholly & exclusively for the purposes of the trade, and thus deductible such as the business element of phone calls.
- Meals bought when working away from the normal place of business are not generally regarded as incurred 'wholly & exclusively' in the course of business.
- It is permissible, however, to deduct reasonable expenses incurred in the course of regularly travelling (or making journeys outside of the normal pattern) while performing work related duties.
- The cost of exclusively business mileage (or where the private element thereof is incidental) is deductible but not if there is considered a mixed business/private purpose for the trip. Where there is *some* business purpose to the trip, a deduction for any genuine business expenses incurred is permissible.
- The premiums on an insurance policy taken out to protect against a loss of profits arising from the death, accident or illness of a key employee are deductible although any premiums received would normally be considered a taxable receipt.
- Normal legal/administrative expenses such as accountancy fees are generally deductible but not if they have been incurred for a private purpose. In other words, a booking keeping fee is deductible but the accounting expense relating to adjusting profits for a tax return or preparing a tax return would not be deductible.
- Sole trader drawings (cash or stock), payments of the sole trader's personal debts or any other private expenses by the business are not deductible expenses.
- Writing off customer debts are a permissible expense, as is (generally in practice) writing off loans to employees. Writing off loans to customers would not constitute a deductible expense.

**Solution 4** (*Cont'd*)

- Revenue expenditure is an allowable expense for tax purposes unless specifically prohibited – eg. business entertainment, gifts of food drink or tobacco, charitable donations, donations to political parties, fines for illegal acts, taxation, provisions for future liabilities, depreciation, VAT (unless not registered for VAT).
- Capital expenditure is not a deductible expense. A capital expense can be defined as one incurred 'not only once and for all but with a view to bringing into existence an asset or an advantage for the enduring benefit of the trade'. A distinction can be made between the capital expense of acquiring an asset and repairing it where the repair expense is a deductible expense (unless the asset required repair before it could be initially used in the business).

**Note:** marks would be awarded for other valid points made.

**Solution 5**

	Year of Assessment	Basis Period		Assessment
<b>(a) Joe</b>	2007/08	1/1/08-5/4/08	3/12 x £66,376	£ 16,594.00
	2008/09	Y/E 31/12/08		£ 66,376.00
	2009/10	Y/E 31/12/09		£ 69,869.00
	Overlap	1/1/08-5/4/08		£ 16,594.00
<b>(b) George</b>	2007/08	1/1/08-5/4/08	3/9 x £34,488	£ 11,496.00
	2008/09	9 M/E 30/9/08		£ 34,488.00
		1/10/08-31/12/08	3/12 x £41,385	£ 10,346.25
	2009/10	Y/E 30/9/09		£ 41,385.00
	Overlap	1/1/08-5/4/08 1/10/08-31/12/08		£ 11,496.00 £ 10,346.25
<b>(c) Gino</b>	2007/08	1/1/08-5/4/08	3/14 x £58,310	£ 12,495.00
	2008/09	12 M/E 28/2/09	12/14 x £58,310	£ 49,980.00
	2009/10	Y/E 28/2/2010		£ 50,479.00
	Overlap	1/3/08-5/4/08	1/14 x £58,310	£ 4,165.00
<b>(d) Justin</b>	2007/08	1/1/08-5/4/08	3/16 x £59,952	£ 11,241.00
	2008/09	Arising Basis 6/4/08-5/4/09	12/16 x £59,952	£ 44,964.00
	2009/10	1/5/08-30/4/09	12/16 x £59,952	£ 44,964.00
	2010/11	Y/E 30/4/2010		£ 53,957.00
	Overlap	1/5/08-5/4/09	11/16 x £59,952	£ 41,217.00

**Solution 6**

<b>W1</b>	Retirement Pension		£ 10,036.00
	State Pension		£ 5,460.00
	Dividends	1800 x 100/90	£ 2,000.00
	BSI	1600 x 100/80	£ 2,000.00
	Bank Interest	1750 x 100/80	£ 2,187.50
	Income from Property (W2)		£ 2,752.50
			<u>£ 24,436.00</u>
<b>W2</b>	Rents Received		7850
	Less: Commission		-785
	Repairs		-260
	Rates		-1300
			<u>£ 5,505.00</u>
	Zelda	50%	£ 2,752.50
	Ralph	50%	£ 2,752.50
<b>W3</b>	STI		£ 24,436.00
	Earnings Threshold		-£22,900.00
	Excess		£ 1,536.00
	1/2 Excess		£ 768.00
	PAA (65-74)		£ 9,490.00
	Less: Restriction		-£ 768.00
	PAA (Restricted)		<u>£ 8,722.00</u>

**Solution 6***(Cont'd)***Income Tax Computation, Zelda 2009/10**

Retirement Pension		£ 10,036.00		
State Pension		£ 5,460.00		
BSI (W1)			£ 2,000.00	
Bank Interest (W1)			£ 2,187.50	
Dividends (W1)				£ 2,000.00
Income from Property (W2)		£ 2,752.50		
		£ 18,248.50	£ 4,187.50	£ 2,000.00
PAA (Restricted W3)		-£ 8,722.00		
Taxable Income		£ 9,526.50	£ 4,187.50	£ 2,000.00
£				
9,526.50	x 20%	£ 1,905.30		
£				
4,187.50	x 20%	£ 837.50		
£				
2,000.00	x 10%	£ 200.00		
		£ 2,942.80		
Less: Tax Credit	Dividends	-£ 200.00		
		£ 2,742.80		
Less: Paid at Source	Bank Interest	-£ 437.50		
	BSI	-£ 400.00		
	PAYE	-£ 2,007.00		
Refund Due		-£ 101.70		

# 1st Year Examination: May 2010

## Taxation I NI

### Examiner's Report

#### General

The overall standard of answers at this sitting of the examination was very good indicated by the average mark of 66% and the overall pass rate of 82.4%. At this level, students are well served by endeavouring to grasp the rudiments of income tax and VAT and it is pleasing to note that successful candidates had, in the main, succeeded in this goal. It is somewhat disappointing to note that the narrative style of question at this sitting was either poorly answered or very unpopular with examination candidates.

#### Question 1

This question examined the candidate's ability to perform basic payroll computations and was generally well answered with an average score (out of a maximum of 20 available) of 14.2 marks.

Mistakes included omitting 'payroll giving' for Fergus, bringing private pension contributions into the computations, calculating NIC liabilities from salary net of pension contributions and attempting Geoff's payroll calculations on a cumulative basis despite him clearly being on a 'month 1' basis.

#### Question 2

This question tested candidates ability to perform an income tax computation for an employed individual who enjoyed work related benefits and some additional income. This was a very well answered question (as would be expected with a standard income tax computation) giving the highest average mark (15.3 out of a maximum of 20) from this diet of students.

Poorer answers attempted car benefit calculations based on purchase rather than list price, pro-rated car & fuel benefit, deducted contributions against the fuel benefit and stated that the laptop was an exempt benefit.

#### Question 3

This question invited candidates to articulate the correct VAT treatment of a number of transactions in various scenarios. On the whole this was poorly answered and the second most poorly answered question at this sitting with an average score (out of a maximum of 20) of 9.1 marks.

Poor answers seemed to confuse income tax and VAT, failed to recognise the correct VAT treatment of the simple and straight-forward transactions being tested and, in many cases, clearly misread the question.

**Question 4**

This question sought an explanation from candidates of the appropriate framework for adjusting profits for a self employed individual and was, by a considerable margin, the least popular question to be answered at this sitting. This question was also the most poorly answered question with an average score (out of 20) of only 7.4 marks. Generally, more successful candidates avoided this question albeit with some notable exceptions. It is baffling that exam candidates, who must surely have gone into the examination prepared to answer a standard adjusted profits style question, seem unable or unwilling to articulate how they would have done this.

**Question 5**

This question required students to be able to identify appropriate basis periods, and calculate subsequent assessable profits and overlap profits, for new businesses across the range scenarios that can arise in such circumstances. This was a generally very well answered question with the second best average score (out of 20) of 15.1 at this sitting. Poor answers seemed to suggest some candidates had not grasped (or attempted to grasp) this area of the syllabus at all.

**Question 6**

This question presented candidates with another income tax computation but, specifically for an older widow who enjoyed some (shared) rental income – the latter points being the main distinguishing features between this question and question 2. On the whole this was a well answered question with an average score (out of 20) of 14.8 marks.

Some common mistakes included candidate's inability to deal with STI & the earnings threshold for this older taxpayer, calculating STI incorrectly, calculating rental income incorrectly, confusing second property rental income and 'rent a room' relief, taxing dividends at the incorrect rate and taxing some savings income at the starting rate (10% for the first £2,440).