
Taxation Northern Ireland

1st Year Examination

May 2013

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.

There are often many possible approaches to the solution of questions in professional examinations. The examiner will accept alternatives to the suggested solution shown herein as long as that alternative is appropriate.

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

1st Year Examination : Summer 2013

Paper : TAXATION(Northern Ireland)

Monday 20th May 2013 : 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 2012. The provisions of the Finance Act 2013 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**

SECTION A

Answer ALL THREE questions in this Section

QUESTION 1

Peter is married to **Neasa** and they have two children aged 9 and 13 years. Peter is a freelance journalist whose 'fees billed' totalled £58,459 during 2012/13. This figure does not include unbilled work, completed during the year in the amount of £3,800. Peter maintains meticulous expenditure records which he has itemised as follows:

Item	£
Travel.....	4,920
Accounting (Completion of Income Tax Returns).....	150
Membership of the National Union of Journalists.....	450
Mobile Telephone (<i>Note 1</i>).....	756

Note 1: Peter estimates that he uses his mobile for 'business' use approximately 80% of the time.

Neasa is a qualified and registered child-minder and now works in a local crèche. She commenced this employment on 1st September 2012 on a salary of £16,000 per annum. At 5th April 2013 she had paid tax on these earnings under the PAYE system in the amount of £921. Her records to August 2012 revealed that she had gross earnings from *private* child-minding of £7,275 and *related* expenditure itemised as per the following:

Item	£
Children's food, consumables & insurance.....	1,405
General Household Expenditure (<i>Note 2</i>).....	2,936
Subscriptions to NI Child-minders Association.....	150

Note 2: The household expenditure relates to *annual* bills for heating, electricity and rates. Neasa had agreed with HMRC an allowable percentage of 15% of these bills against her income from child-minding activities.

Peter and Neasa jointly own two city centre apartments that they had let (furnished) throughout 2012/13. Associated income and expenditure is as follows:

Item	£
Apartment Rental Income.....	23,400
Rates	2,100
Letting Agent Fee.....	1,170
Management Charge (levied by apartment management company).....	1,050
Total mortgage Payments (Interest element is £6,324).....	25,244

With the exception of the building society interest, which is exclusively Peter's, Peter and Neasa enjoyed jointly held net investment income as follows:

Item	£
Bank Interest.....	75
Building Society Interest.....	924
Interest on ISA.....	500
UK Dividends.....	900

Peter made payments to registered charities in the amount of £750 during 2012/13 and made contributions to his private pension scheme of £4,320 (net) during the year.

Required

Calculate Peter and Neasa's income tax liabilities for 2012/13, showing clearly both their liability to income tax and the balance of any tax due.

Note: For the purposes of the above computations you may ignore any payments on account which may have been made by Peter or Neasa.

Total 20 Marks

QUESTION 2

Jim & Joe run a deli and have the following income and expenditure for Year Ended 31st March 2013. Where relevant, all figures are exclusive of VAT unless stated otherwise. Jim & Joe are registered for VAT.

	Note	£	£
Income			
Sales.....	1		147,609
Refund of Tax.....	2		2,350
Rental Income.....	3		<u>10,800</u>
			160,759
Cost of Sales.....			<u>(36,483)</u>
			124,276
Expenditure			
Wages.....	4	13,800	
Rent.....	5	23,400	
Rates.....	6	4,615	
Light & Heat.....	6	1,860	
Telephone & Wi-Fi.....	7	1,830	
Fridges & Display Equipment.....	8	2,705	
Delivery Expenses.....	9	7,610	
Gifts.....	10	1,125	
Bad Debts.....	11	2,468	
Legal & Professional Fees.....	12	6,185	
Subscriptions & Donations.....	13	650	
Advertising.....	14	2,100	
HMRC.....	15	1,853	
Drawings.....		34,000	
Depreciation.....		750	
Bank Charges.....	16	<u>5,576</u>	<u>(110,527)</u>
			<u>13,749</u>

- 1 Jim & Joe's deli is a mostly 'over-the-counter' cash business although they do supply some goods to local restaurants. Outstanding invoices in the amount of £1,763 have not been included in the **sales** figure. An amount of £300 received from the proceeds of the disposal of old display equipment has been included in the sales figure.
- 2 Jim & Joe had been overcharged **VAT** from a European supplier (despite having provided their supplier with their UK VAT registration number) and had the amount subsequently refunded.
- 3 A local taxi company uses a small self-enclosed unit at the rear of the deli as a base from which they operate and from whom Jim & Joe derive this **rental income**. The space comprised by this unit relates to approximately 10% of the space of their entire shop premises and this figure has been agreed by HMRC.
- 4 Jim's mother makes their very successful 'home-made' soup and helps out in the shop two days per week. This figure includes payment to her in the amount of £6,450 for **wages, NIC** and compensation for goods and related expenditure for her home prepared soups. The balance of this figure relates to **wages & NIC** paid to a catering student on placement.
- 5 This figure relates to **rent** expenditure paid for the whole premises. Included in this figure is the cost of putting in a stud wall (£600) to partition the area used by the taxi company
- 6 These figures relate to **rates and to light & heat** levied on the whole premises.

Question 2 is continued on the next page

- 7 This figure includes the following:

	£
Telephone & Wi-Fi	
Landline rental.....	114
Landline Charges.....	468
Wi-Fi (used by Jim & Joe and free to customers).....	120
Mobile Telephone.....	<u>1,128</u>
	<u>1,830</u>

Jim & Joe both have private mobile telephones which they charge fully through the business. They have agreed a proportion of business use with HMRC of 25%

- 8 This figure is analysed as follows:

	£
Fridges & Display Equipment	
Purchase of (replacement) second hand fridges.....	1,650
New Display equipment.....	790
Loss on disposal of old fridges.....	<u>265</u>
	<u>2,705</u>

The replacement fridges were bought second hand from a business that had gone into liquidation and their cost includes a repair expense of £350 which Jim & Joe had to pay so as to render the fridges usable in the first instance in their deli.

- 9 This figure comprises the following:

	£
Delivery Expenses	
Delivery van lease.....	4,200
Fuel (including VAT at 20%).....	2,600
Repairs.....	750
Parking Fines.....	<u>60</u>
	<u>7,610</u>

- 10 This figure comprises **gifts** to local Church Christmas 'fayres' of food hampers bearing a prominent 'Jim & Joe's Deli' business logo

- 11 This figure is comprised as follows:

	£
Bad Debts	
Increase in general provision.....	745
Specific bad debt write-off.....	823
Provision against unpaid rental income.....	<u>900</u>
	<u>2,468</u>

- 12 This figure is comprised as follows:

	£
Legal & Professional	
Accounting: Preparation of tax returns (Income Tax & VAT).....	860
Legal fees re: pursuit of bad debts.....	250
Insurance: Business, public liability, key-man.....	<u>5,075</u>
	<u>6,185</u>

The **accounting charges** are broken down as the charge relating to income tax returns (£345) and the charge relating to VAT returns (£515). The insurance expense is broken down as £2,450 (business shop contents, fire, theft, van), £1,695 (public liability) & £930 (key-man re: Jim/Joe).

- 13 **Subscriptions and donations** are made up of subscriptions to a trade organisation (£500), subscriptions to a trade magazine (£50) and charitable donations to a local scout group (£100).

Question 2 is continued on the next page

14 **Advertising** relates to the expense of advertising in various local newspapers and trade magazines and the cost of free samples given to customers from time to time with a value of £175.

15 This figure is comprised as follows:

	£
HMRC	
VAT accrual.....	1,389
Interest on overdue income tax.....	<u>464</u>
	<u>1,853</u>

16 This figure is comprised as follows:

	£
Bank Charges	
Interest on business bank account.....	363
Bank Charges.....	225
Credit Card (amounts purchased).....	4,821
Credit Card (interest charges).....	<u>167</u>
	<u>5,576</u>

Jim uses the credit card for *mostly* business purchases that he estimates to account for 70% of purchases made using this credit card, the balance being private purchases by Jim.

17 It comes to your attention that both Jim and Joe have taken a significant amount of stock for their own consumption. Upon investigation the relevant figure for this stock is £1,385 (cost price), £1,939 (potential selling price).

Required

Show the tax adjusted profits for Jim & Joe's deli for Year Ended 31st March 2013.

Total 20 Marks

QUESTION 3

(i) Mark is 44 years old, a basic rate taxpayer, married, and has underpaid tax of £1,200 from 2011/12. He pays £250 per annum as membership of a professional body (relevant to his employment).

Required

What will Mark's tax code be for 2012/13 assuming he has elected to deal with the above matters through a notice of coding?

(3 Marks)

(ii) Joanne is a self-employed solicitor with adjusted earnings of £63,500 in 2012/13.

Required

Calculate Joanne's relevant NIC liabilities for 2012/13.

(3 Marks)

(iii) Peadar's employer now provides him with a company car and all related diesel. From August 1st 2012 the company have provided him with an Audi - list price of £23,500 and optional extras as follows: Hands-free kit (£360) and an upholstery upgrade (£750). Peadar is required to make a contribution of £150 per month toward the running expenses of the vehicle which has an official CO₂ rating of 171 grams per kilometre.

Required

Calculate all of Peadar's relevant assessable benefit-in-kind in respect of his employer's provision of this vehicle.

(3 Marks)

- (iv) Krishuz and his wife own a house on the County Antrim coast that they use occasionally for family purposes and let out at other times.

Required

Briefly outline the conditions that would have to be met in order for this property to be treated as 'furnished holiday accommodation'.

(3 Marks)

- (v) Fred commenced self-employment on 1st March 2011 making up accounts to 31st December 2011 and annually thereafter. His results have been as follows:

	Adjusted Profits (£)
Period to 31/12/11.....	13,650
Year ended 31/12/12.....	17,136

Required

Calculate the taxable profits for all relevant years. *Note that you are not required to indicate any arising overlap profit.*

(4 Marks)

- (vi) Harry will be 75 years old on 6th April 2013. He enjoys the following income:

	£
State Pension.....	6,500
Pension from former employment (gross).....	18,000
Interest income (amounts received).....	1,360
Dividends received.....	1,215

PAYE of £1,978 had been deducted from the above employment pension. Harry donates £15 per week to his local church, donations for which he is careful to have signed gift-aid declarations.

Required

Identify the personal allowance to which Harry is entitled in 2012/13.

(4 Marks)**Total 20****Marks**

SECTION B

Answer ANY TWO of the three questions

QUESTION 4

- (i) **Tony** has supplied you with the following VAT inclusive figures in respect of his VAT registered business for the quarter ended 30/9/12:

Sales	£
Invoiced – <i>Sums Received</i>	14,329
Invoiced – for which have <i>not yet received payment</i> ..	2,496
Cash lodged re: <i>Cash Sales</i>	3,400
 Expenses Paid out of Cash Sales	 £
Sundry.....	975
Purchase of Shop Furniture.....	1,105
Stock.....	1,976
Drawings.....	2,750

Tony notes that of the outstanding invoices, £1,200 is not expected to be recovered as these invoices have been outstanding for between 3 and 4 months.

Required

Calculate the output tax due on Tony's sales for the quarter ended 30/9/12.

(4 Marks)

- (ii) **Feargal** is self-employed and has recently registered for VAT. He purchases all his fuel for his car, a Ford with CO₂ emissions of 163 grams/km, which he uses for both private and business purposes. Feargal is unsure of the correct VAT treatment of his fuel purchases and has asked you to email him to explain to him what he should be doing.

Required

Briefly explain how Feargal should be treating his fuel purchases so as to ensure an appropriate VAT treatment.

(3 Marks)

- (iii) **Conor** is self-employed and has a turnover of approximately £100,000 per annum. He did not submit his VAT return for the quarter ended 30/11/12 until 13/1/13 and submitted the immediately next VAT return on 1st June. HMRC had not raised any assessments to date.

Required

Briefly outline any penalties, surcharges or interest that will be levied on Conor.

(4 Marks)

- (iv) **Zeb** is VAT registered and receives an order with a net value of £1,500 from a customer in Madrid who trades under the name 'IBERIATA'. This Spanish customer has provided Zeb with a valid Spanish VAT number.

Required

Briefly explain to Zeb how he should treat this supply for VAT purposes.

(2 marks)

Question 4 is continued on the next page

- (v) **Attracta** is self-employed and works from home. She uses her home telephone for business purposes and estimates that her use of this telephone is approximately 40% private and 60% business. Attracta pays 100% of her home telephone bill using a business bank account.

Required

Explain to Attracta the *two* methods for dealing with this expense for VAT purposes.

(3 Marks)

- (vi) **Matthew** is in the first year of his business and, during the trading year to 30th April 2013 he had turnover in the first two quarters of £18,455 rising to £19,950 in the second two quarters. He expects his sales to continue at £19,950 per quarter throughout his second year of trading.

Required

Indicate by when, if at all, Matthew should register for VAT.

(4 Marks)

Total 20 Marks

QUESTION 5

- (i) Outline the normal time limits for during which HMRC may commence an enquiry into an individual's personal income tax return.

(4 Marks)

- (ii) *Briefly* distinguish between 'discovery assessments' and 'determinations' *taking care to note the time limits for raising such assessments/making determinations.*

(6 Marks)

- (iii) Taxpayers have an obligation to maintain adequate records in support of making relevant tax returns. Note the time limits for maintaining such records and the penalties which HMRC can impose for failure in maintenance of relevant records.

(3 Marks)

- (iv) Briefly outline the scope and limitations of HMRC powers to request information from taxpayers and third parties. *You do not have to give specific examples of information for which HMRC may not make a request.*

(7 Marks)

Total 20 Marks

QUESTION 6

Ronan runs **PRENDEGHAST Limited**, employing three staff. You have been asked to help with training the office junior to complete payroll and so you have chosen the above company for month 7 as your 'live' example. Relevant details for month 7 of the three employees of PRENDEGHAST Limited for 2012/13 are as follows:

	Claire	Michael	Ken
Cumulative Gross Pay inclusive of Month 6, excluding all deductions....	See Note 1	£26,558	£15,216
Childcare Vouchers (per month).....	NIL	NIL	£240
Pension.....	See Note 1	£150 per month	NIL
Tax Code.....	See Note 1	K370	645L
Tax Deducted to Date (M6 inclusive)..	See Note 1	£5,565	£2,232
Salary in Month 7.....	£2,695	£4,450	£2,495

- (1) Claire has just joined the company and, to date, no P45 has been received in respect of her previous employment. Claire has indicated that she does not intend making any payroll facilitated pension contributions and will continue with her monthly private pension contributions at the rate of £250 per month.
- (2) Michael's tax code has just been received by PRENDEGHAST Limited with instruction to supersede any previously employed notice of coding. PRENDEGHAST Limited facilitate pension contributions through the payroll under net pay arrangements.

Required

- (i) Calculate the income tax and NIC liabilities due under the PAYE system for each of the above employees. Note that you are not required to complete form P11 nor are you required to indicate how you would have done so.

(12 Marks)
- (ii) Outline the due dates for submission of relevant monthly PAYE returns for both 'larger' & 'smaller' employers (in the context of both the number of employees and size of PAYE liability).

(4 Marks)
- (iii) *Briefly* interpret the PAYE suffixes 'BR', 'NT' & 'P'.

(4 Marks)

Total 20 Marks



1st Year Examination: May 2013

Taxation (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.

Solutions begin overleaf→

Solution 1

W1	Fees billed		£ 62,259.00
	Expenses:		
	Travel		£ 4,920.00
	NUJ		£ 450.00
	Mobile	756x80%	<u>£ 604.80</u>
			<u>£ 56,284.20</u>

W2	Rental Income		£ 23,400.00
	Expenses:		
	Rates	£ 2,100.00	
	Letting agent	£ 1,170.00	
	Man'ment charge	£ 1,050.00	
	Mortgage Interest	£ 6,324.00	
	Wear & Tear	£ 2,130.00	<u>£ 12,774.00</u>
			<u>£ 10,626.00</u>

Peter (50%) £ 5,313.00
Neasa (50%) £ 5,313.00

Marks Allocated
1 Mark
1 Mark
1 Mark
1 Mark
1 Mark
1 Mark
1 Mark
1 Mark
1 Mark
2 Marks
Note:
8 Marks in total for W2. Marks are divided as follows:
4 Marks – Peter
4 Marks – Neasa

Taxation NI

May 2013

1st Year Paper

W3	Private child-minding income		£ 7,275.00	
	Expenses:			
	Food	£ 1,405.00		
	General household	£ 183.50		
	Subscriptions	£ 150.00	<u>£ 1,738.50</u>	
			<u>£ 5,536.50</u>	
W4	Neasa Gross Salary		£ 9,333.33	
W5	Peter Charitable Donations (net)		£ 750.00	
	Peter Pension (net)		<u>£ 4,320.00</u>	
			<u>£ 5,070.00</u>	
	Extended Basic Rate		<u>£ 6,337.50</u>	

- 1 Mark
- 1 Mark
- 1 Mark
- 1 Mark
- 2 Marks
- 1 Mark
- 1 Mark
- 1 Mark
- Title & Layout: 1 Mark

Peter Income Tax Computation 2012/13

Income from self-employment (W1)		£ 56,284.20		
Rental Income (W2)			£ 5,313.00	
Bank Int. (€75/0.8)x0.5			£ 46.88	
BSI €924/0.8			£ 1,155.00	
Dividends (€900/0.9)x0.5				<u>£ 500.00</u>
		£ 56,284.20	£ 6,514.88	£ 500.00
Personal Allowance		<u>£ 8,105.00</u>		
Taxable Income		<u>£ 48,179.20</u>	<u>£ 6,514.88</u>	<u>£ 500.00</u>

Taxed as per:

- See above
- See above
- 1 Mark
- 1 Mark
- 1 Mark
- 1 Mark

Taxation NI

May 2013

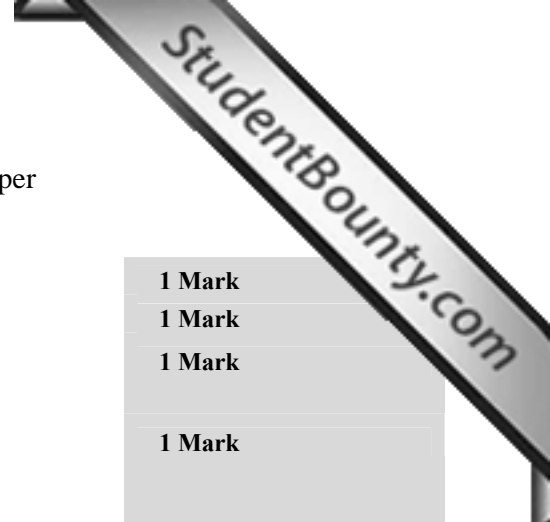
1stYear Paper

Ex B/R (W5)	£ 34,370.00	20%	£ 6,874.00
	£ 6,337.50	20%	£ 1,267.50
	<u>£ 7,471.70</u>	40%	£ 2,988.68
	<u>£ 48,179.20</u>		
Rental	£ 5,313.00	40%	£ 2,125.20
Interest	<u>£ 1,201.88</u>	40%	£ 480.75
	<u>£ 6,514.88</u>		
Dividends	£ 500.00	32.5%	<u>£ 162.50</u>
			£ 13,898.63
Dividend Tax Credit			<u>£ 50.00</u>
Burden of Taxation			£ 13,848.63
Paid at source			
Interest			£ 240.38
Balance of Taxation			<u>£ 13,608.26</u>

Neasa Income Tax Computation 2012/13

Income from self-employment (W3)		£ 5,536.50	
Income from PT employment (W4)		£ 9,333.33	
Rental Income (W2)			£ 5,313.00
Bank Int. (€75/0.8)x0.5			£ 46.88
Dividends (€900/0.9)x0.5			<u>£ 500.00</u>
		£ 14,869.83	£ 5,359.88
Personal Allowance		<u>£ 8,105.00</u>	
Taxable Income		<u>£ 6,764.83</u>	<u>£ 500.00</u>
Taxed as per:			
£ 6,764.83	20%	£ 1,352.97	

- 1 Mark
- See above + 1 Mark
- 1 Mark
- 1 Mark
- 1 Mark
- 1 Mark
- 1 Mark
- 1 Mark
- Title & layout: 1 Mark
- See above
- See above
- See above
- 1 Mark
- 1 Mark
- 1 Mark
- 1 Mark



Taxation NI

May 2013

1stYear Paper

Rental	£ 5,313.00	20%	£ 1,062.60
Interest	£ 46.88	20%	£ 9.38
Dividends	£ 500.00	10.0%	<u>£ 50.00</u>
			£ 2,474.95
Dividend Tax Credit			<u>£ 50.00</u>
Burden of Taxation			£ 2,424.95
Paid at source			
Interest			£ 9.38
PAYE			<u>£ 921.00</u>
Balance of Taxation			<u><u>£ 1,494.57</u></u>

1 Mark

1 Mark

1 Mark

1 Mark

1 Mark

1 Mark

Note:

In order to get final mark:

(Total Mark x 20/45)

Solution 2**Jim & Joe Adjusted Profits Y/E 31/3/2013**

Net Profit per the Accounts			£ 13,749.00	
add: O/S Invoices			£ 1,763.00	1 Mark
deduct: Non -trading income				
Tax refund		£ 2,350.00		1 Mark
Rental income		£ 10,800.00		1 Mark
Sale proceeds (equipment)		£ 300.00	£ 13,450.00	1 Mark
add: Disallowed expenses				
Rent	£22,800 x 10%	£ 2,280.00		1 Mark
Stud Wall		£ 600.00		1 Mark
Rates	£4,615 x 10%	£ 461.50		1 Mark
Light & Heat	£1,860 x 10%	£ 186.00		1 Mark
Mobile	£1,128 x 75%	£ 846.00		2 Marks
Fridges		£ 1,650.00		1 Mark
Display equipment		£ 790.00		1 Mark
Loss on disposal of fridges		£ 265.00		1 Mark
Fuel VAT		£ 433.33		1 Mark
Parking fines		£ 60.00		1 Mark
Gifts (food, drink or tobacco)		£ 1,125.00		1 Mark
Increase in BD provision		£ 745.00		1 Mark
Provision against rental income		£ 900.00		1 Mark
Accounting		£ 345.00		1 Mark
Key Man Insurance		£ 930.00		1 Mark
Charitable donation		£ 100.00		1 Mark
Free Samples		£ 175.00		1 Mark
VAT accrual		£ 1,389.00		1 Mark
Interest on overdue tax		£ 464.00		1 Mark
Drawings		£ 34,000.00		1 Mark
Depreciation		£ 750.00		1 Mark
Credit Card	(£4,821+£167) x 30%	£ 1,496.40		2 Marks
Goods for Own Consumption		<u>£ 1,939.00</u>	<u>£ 51,930.23</u>	1 Mark
Adjusted Profits			<u>£ 53,992.23</u>	

Marks Allowed
Title & layout

1 Mark**1 Mark****1 Mark****1 Mark****1 Mark****1 Mark****1 Mark****1 Mark****2 Marks****1 Mark****1 Mark****1 Mark****1 Mark****1 Mark****1 Mark****1 Mark****1 Mark****1 Mark****1 Mark****1 Mark****1 Mark****1 Mark****1 Mark****1 Mark****1 Mark****2 Marks****1 Mark****Note:****In order to get final mark:****(Total Mark x 2/3)**

Solution 3

(i)	Personal allowance		£	8,105.00	
	Underpaid tax		-£	6,000.00	
	Professional body subs.		£	<u>250.00</u>	
			£	<u>2,355.00</u>	
	New Tax Code:			235L	
(ii)	Class II NIC	(£2.65 x 52)	£	137.80	
	Class IV NIC	£7,605 @ NIL	£	-	
		£7,605 - £42,475 @ 9%	£	3,138.30	
		£42,475 - £63,500 @ 2%	£	<u>420.50</u>	
	Total		£	<u>3,696.60</u>	
(iii)	List Price		£	23,500.00	
	Hands Free		£	360.00	
	Upholstery		£	<u>750.00</u>	
			£	<u>24,610.00</u>	
	Pro-rata	x 8/12	£	4,593.87	
	Contribution		-£	<u>1,200.00</u>	
	Car BIK		£	<u>3,393.87</u>	
	Fuel BIK		£	<u>5,656.00</u>	

Marks Allocated

1 Mark

2 Mark

2 Mark

1 Mark

Note:**In order to get mark:****(Total Mark ÷ 2)**

1 Mark

1 Mark

1 Mark

1 Mark

1 Mark

1 Mark

1.5 Marks

1 Mark

1 Mark

1.5 Marks



Taxation NI

May 2013

1stYear Paper

Pro-rata x 8/12 £ 3,770.67

1 Mark

Note:

In order to get mark:

(Total Mark ÷ 3)

(iv) **Conditions**

the tax year

1 Mark

term occupation').

1 Mark

tax year.

1 Mark

(v)

YOA

Period

Assessable Profits/O/Lap

2010/11 1/3/11 - 5/4/11 £13,650 x 1/10

£ 1,365.00

1 Mark

2011/12 1/3/11 - 31/12/11

£ 13,650.00

1 Mark

1/1/12 - 28/2/12 £17,136 x 2/12

£ 2,856.00

1 Mark

£ 16,506.00

2012/13 Y/E 31/12/12

£ 17,136.00

1 Mark

Solution 4

(i)	Outputs	Paid Invoices	£ 14,329.00	1.5
		O/S Invoices	£ 2,496.00	1.5 Marks
		Cash Lodged	£ 3,400.00	1.5 Marks
		Expenses Paid from Cash	<u>£ 6,806.00</u>	1.5 Marks
			<u>£ 27,031.00</u>	
		Output VAT: £27,031 x 1/6	<u>£ 4,505.17</u>	2 Marks
				Note:
				In order to get mark:
				(Total Mark ÷ 2)
(ii)		<u>Feargal may claim the input tax credit</u> on fuel purchased but <u>must account for output tax on the fuel according to the fuel scale charge</u> , which itself depends on the Co2 rating of the vehicle. For Feargal's car this means that his output tax per quarter on a gross (VAT inclusive) basis is £61 (£366 gross).		1.5 Marks 1.5 Marks
(iii)		Since Conor's turnover is less than £150,000 he will be 'in default' in respect of the VAT return for Q/E 30/11/12 which was received 13 days late. This will prompt a <u>letter of support from HMRC in the first instance</u> and, since his <u>next return is also late, a 'Surcharge Liability Notice' with respect to the subsequent return</u> . This subsequent notice will explain to Conor the sanctions in respect of further missed deadlines but, as yet, will not impose any penalty.		Any two points: 2 Marks Each
		<u>Assuming that Conor's tax returns (when returned late) are submitted accurately and no assessments have been raised, Conor should not be subject to any penalties or interest.</u>		
(iv)		Since the Spanish customer has provided Zeb with a valid Spanish VAT number, the goods should be sold <u>'zero rated'</u> to the Spanish customer and the sale noted on the relevant HMRC return.		2 Marks
(v)		Attracta can <i>either</i> (i) claim all of the relevant VAT as a refundable input and a relevant proportion of the tax (relating to the private use portion) as an output <i>or</i> (ii) reclaim as a refundable input only that proportion of the VAT relating to business use (with no associated output).		Each treatment: 1.5 Marks Each
(vi)		Matthew's first year turnover is $(£18,455 \times 2) + (£19,950 \times 2) = £76,810$. By the 13th month of trading his '12 month consecutive' rolling turnover rises to: $£76,810 - (£18,455/3) + (£19,950/3) = £77,308.33$ at which point Matthew has 30 days in which to register for VAT.		Cumulative, "Rolling" Total and Registration Threshold: 4 Marks
		Note that this analysis ignores any subsequent rises to VAT registration thresholds of which we are not yet aware.		

Solution 5

- (i)
- Generally, HMRC have 12 months from the date the tax return was submitted in order to launch an enquiry. **2 Marks**
 - If the return was filed late, or amended, the deadline is extended until the quarter following the first anniversary of the actual filing date (quarter dates being January 31st, April 30th, July 31st & October 31st). **2 Marks**
- (ii)
- If HMRC believe that a submitted return represents an under-declaration of tax, they can raise a discovery assessment to collect the additional tax. **1 Mark**
 - Where this under-declaration is due to 'careless error', the time limit for raising the discovery assessment is normally four years from the end of the relevant tax year. This deadline extends to six years in the case of tax-payer negligence and twenty years in the case of tax-payer dishonesty. **3 Marks**
 - In the event of an individual ignoring an HMRC notice requiring them to submit a return, an officer of HMRC is entitled to 'determine' the tax liability to the best of their ability given the information available. **1 Mark**
 - Determinations must be raised within four years of the end of the relevant tax year. **1 Mark**
- (iii)
- Taxpayers in business or having a source of rental income must keep records for five years from the 31st January following the end of the tax year. **1 Mark**
 - In all other cases, taxpayers must keep records for 12 months from the date of the return. **1 Mark**
 - The maximum penalty for failure to keep records is £3,000 per tax year/accounting period. **1 Mark**
- (iv)
- HMRC has statutory powers to request information from tax-payers and third parties via written notice in circumstances where the tax-payer has not co-operated fully with previous information requests. **3 Marks**
 - HMRC can request to see financial records, supplementary records (diaries, notes, contracts) and, generally, the information must be reasonably required for the purposes of checking the individual's tax position. **2 Marks**
 - Where information is requested from a third party, it must be done with the agreement of the tax-payer or with the approval of a tribunal (unless it is VAT related). Tax advisers or accountants cannot be asked to provide information connected with their function (working papers etc.). **2 Marks**

Taxation NI

May 2013

1st Year

Solution 6

(i)

		<u>Claire</u>	<u>Michael</u>	<u>Ken</u>	Mark
Cumulative Gross Pay to Date			£ 26,558.00	£ 15,216.00	2 Marks
Pension			-£ 900.00		1 Mark
CCV				-£ 1,440.00	1 Mark
Pay in M7		£ 2,695.00	£ 4,450.00	£ 2,495.00	3 Marks
Pension			-£ 150.00		1 Mark
CCV				-£ 240.00	1 Mark
Free-pay	£8,109 x 1/12	-£ 675.75			1 Mark
	£6459 x 7/12			-£ 3,767.75	1 Mark
Add. Pay	£3,709 x 7/12		<u>£ 2,163.58</u>		1 Mark
Taxable Pay to M7		<u>£ 2,019.25</u>	<u>£ 32,121.58</u>	<u>£ 12,263.25</u>	
Taxed as Per:					
£					
2,019.25	20%	<u>£ 403.85</u>			1 Mark
£34,370 x 7/12	20%		£ 4,009.83		1 Mark
£					
12,072.42	40%		£ 4,828.97		1 Mark
£					
12,263.25	20%			£ 2,452.65	1 Mark
Less: Tax Paid to Date			<u>-£ 5,565.00</u>	<u>-£ 2,232.00</u>	2 Mark
Tax Due in Month 7		<u>£ 403.85</u>	<u>£ 3,273.80</u>	<u>£ 220.65</u>	3 Marks

Note: Michael's PAYE deduction will be limited to 50% of his gross salary.

National Insurance Contributions

Primary	£2,695-£634	12%	£ 247.32		1 Mark
	£3,540-£634	12%		£ 348.72	1 Mark
	£4,450-				
	£3,540	2%		£ 18.20	1 Mark
	£2,255-£634	12%		£ 194.52	1 Mark
Secondary	£2,695-£624	13.8%	£ 285.80		1 Mark
	£4,450-£624	13.8%		£ 527.99	1 Mark
	£2,255-£624	13.8%		£ 225.08	1 Mark

Layout: 1 Mark

Note:

In order to get mark:

(Total Mark x 0.4)

(ii)

- Monthly postal returns are due with 14 days of the relevant tax month end, ie. by the 19th of the following calendar month.
- Monthly electronic returns are due by the 22nd of the following calendar month.
- Employees with more than 250 employees must make electronic returns.
- Employees with a PAYE liability of less than £1,500 can make returns to HMRC on a quarterly basis.

1 Mark**1 Mark****1 Mark****1 Mark**

(iii)

- BR – informs the employer to deduct tax at the basic rate only (without any free pay).
- NT – this code means that no tax is to be deducted from any payments made to the employee.
- P – this means that the individual is entitled to a personal allowance.

1.5 Marks**1.5 Marks****1 Mark**

1st Year Examination: May 2013

Taxation (NI)

Examiner's Report

Statistical Analysis – By Question						
Question No.	1	2	3	4	5	6
Average Mark (%)	74%	58%	57%	49%	17%	61%
Nos. Attempting	209	206	208	182	26	194

Statistical Analysis - Overall	
Pass Rate	73%
Average Mark	57%
Range of Marks	Nos. of Students
0-39	47
40-49	9
50-59	36
60-69	46
70 and over	73
Total No. Sitting Exam	211
Total Absent	47
Total Approved Absent	10
Total No. Applied for Exam	268

General Comments:

Overall at this sitting, this diet of candidates achieved a very satisfying pass rate (73%) and there were a very pleasing number of thoroughly excellent scripts received. As is always the case, not all candidates achieved a satisfactory level of performance and this remains a disappointment, especially given the ready availability of thorough & excellent media by which prospective exam candidates may now acquaint themselves with the syllabus and acquire the necessary knowledge & skills required to achieve, at the very least, a pass in this examination. Prospective exam candidates can take a great deal of heart in the knowledge that it remains the case that any candidate for this examination will be well served by acquainting themselves with basic income tax & VAT and making use of the afore-mentioned resources – it is pleasing that the majority do so and the pass rates at this examination reflects their efforts.

This exam paper represented reasonably standard fare at this level with candidates ability to perform a standard mix of income tax computations, adjusted profit computations & PAYE calculations being tested and all backed up by a requirement for candidates to have a broad grasp of basic income tax & VAT. As is the trend in this examination, candidates scored least well in the narrative question and the VAT question.

Question 1

This was a generally well answered question requiring candidates to perform income tax computations for a couple who each had a mix of income from employment, self-employment and savings & investment income. As noted, this was a generally well answered question, a small number of solutions attempted to tax the married couple jointly (not having being on the statute for over 20 years) or giving each of Peter & Neasa personal age allowances or married couples allowance.

Question 2

This was another generally well answered question, albeit not quite as well answered as Q1. This question was a standard 'adjusted profits' computation requiring candidates to identify the usual mix of private, capital & unallowable expenditure (& non-taxable income) and adjust accordingly. Where candidates did make mistakes it had, at its root, confusion between private & business related expenditure or a lack of clarity in some specifically non-allowable expenditures. The puzzling trend with a number of candidates with this question at this sitting was, despite repeated appeals to the contrary, presentation of solutions which attempted to reconstruct the profit & loss account rather than present the expected adjusted profits format. This resulted in zero marks being awarded to a number of candidates. As noted above, repeated appeals have been made in previous exam reports & at examiner liaison meetings directing exam candidates not to attempt anything other than an adjusted profits format when answering this question – and this very point is made in the manual also.

Question 3

This was a reasonably well answered question which is becoming a standard type of question in this examination and tested candidates' knowledge in a broad range of areas. Where mistakes were made it reflected in candidates' inability to deal with the necessary computation required to calculate an individuals' tax code, omission of class 2 NIC for the self-employed person or, indeed, treating them as an employed person! Given that time management is a necessary skill to pass this (as any) exam, it was somewhat frivolous that some candidates attempted solutions far beyond that required of them – for example, in part (vi), candidates were only required to calculate Harry's PAA, not conduct a full income tax computation for him!

Question 4

This question was not well answered in general. VAT is an integral element of this syllabus and it is thoroughly dealt with in relevant study material and carrying on with the theme of poor time management, part (i) only required candidates to calculate output VAT not attempt a full-blown VAT calculation! Candidates were good at pointing out that Feargal (part ii) should account for output VAT according to the fuel scale charge but often omitted to mention that he could reclaim all of the input VAT on the fuel. The simple VAT penalty element of the question (part iii) confused a number of candidates as did part (iv) relating to EC sales. Part (v) was generally well answered but some candidates did seem to get VAT and standard financial accounting/adjusted profits somewhat confused. A similar question has been asked before to that in part (vi) although it was clear that a number of candidates do not revise from past papers!

Question 5

This narrative question was far-and-away the least popular and least well answered and was, itself, all based on material expanded upon in the manual. The general standard of answer was very disappointing. In this examination it would be misleading for prospective exam candidates to think of the *narrative* question as a *theory* question which it most certainly is not. This question invariably requires exam candidates to make narrative responses to questions probing their knowledge of basic, 'every-day' administrative structures and processes relating to UK tax practice and administration – all contained in the custom manual! Familiarisation with this material will serve prospective exam candidates well in future examinations of this syllabus.

Question 6

This was, on the whole, a very well answered question and candidates for this examination are generally to be commended on their ability to perform payroll computations. As hinted at in the most recent examiner liaison meeting, some of the computation traditionally required in this form of question, was at this sitting, replaced by relevant narrative question(s) and it is pleasing to note that the better candidates displayed evidence of a sound understanding in this area. However, only a very small minority of candidates recognized the statutory 50% limit for k-code deductions (Michael) and some traditional areas of confusion for some candidates do, however, keep re-appearing. For example, many candidates attempted to give tax relief for private pension contributions by deducting through the payroll, or treated pension contributions as deductible for NIC purposes or failed to deduct CCV for IT & NIC purposes. There are some otherwise very easy marks being tossed away by such treatment.