
Taxation Northern Ireland

1st Year Examination

August 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: Autumn 2013
Paper : TAXATION (Northern Ireland)
Monday 26th August 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

You work for a payroll consultancy company and have to prepare the payroll for **ZINNIT Limited**, a small but growing company with four employees. Details up to and including week 21 are as follows:

	Alex	Dara	Robert	Francis
Gross pay to date excluding all deductions.....	See Note 2	£20,985	See P45	£13,053
Childcare Vouchers (per week).....	NIL	NIL	NIL	£40 (Note 5)
Payroll giving (per week).....	NIL	NIL	£10	£5
Pension Contributions.....	See Note 4	See Note 4	See Note 4	See Note 4
Tax deducted to date.....	See Note 2	£3,804.35	See P45	£1,657.11
Wages in week 22.....	£395	£985	£405	£558
Tax Code.....	See Note 2	See Note 1	See P45	810L

- (1) Dara's tax code had been 810L but you have received notice from HMRC to use code 635L from week 22 on a week 1 basis.
- (2) Alex has just joined the company and, to date, you have not received a P45 in respect of his previous employment. Form P46 has been completed for Alex.
- (3) Robert has just joined the company. Form P45 from his previous employer showed the following:

Name.....	Robert
National Insurance Number.....	NI45678Z
Tax Code.....	795L
Cumulative Gross Pay to Date.....	£7,770
Tax Paid to date.....	£911.20

Robert's payroll giving commenced when he took up his employment with ZINNIT Ltd in week 22.

- (4) All employees are obliged to mandatorily contribute 5% of their gross pay to a pension provider, which is dealt with under net pay arrangements.
- (5) The childcare voucher deductions for Francis have been in place throughout 2012/13.

Required

- (a) Calculate all tax and National Insurance Contributions due under PAYE arrangements for each of the employees above. Note that you are not required to complete form P11 nor are you required to indicate how you would have done so.

(12 Marks)
- (b) *Briefly* outline the employers' end-of-year procedures with respect to the operation of PAYE. Note that you are not required to discuss late filing penalties.

(8 Marks)

Total 20 Marks

QUESTION 2

Consider each of the following 'new-start' businesses;

- (i) **Hugo** commenced trading on 1st February 2010. His subsequent tax adjusted results have been as follows:

Period	£
Period to 31/12/2010.....	10,450
Y/E 31/12/11.....	21,468
Y/E 31/12/12.....	25,968

- (ii) **Helen** commenced trading on 1st May 2010. Her results to date have been as follows:

Period	£
Year to 30/4/2011.....	12,300
Y/E 30/4/12.....	15,780
Y/E 30/4/13.....	14,340

- (iii) **Charlie** commenced trading on 1st January 2010. His results to date have been as follows:

Period	£
Period to 31/5/2011.....	21,386
Y/E 31/5/12.....	15,804
Y/E 31/5/13.....	16,812

- (iv) **David** commenced trading on 1st January 2010. His results to date have been as follows:

Period	£
Period to 28/2/11.....	33,138
Y/E 29/2/12.....	28,260
Y/E 28/2/13.....	29,088

Required

For each of the above businesses, identify the relevant years of assessment in which a charge to tax will be made and, showing your workings clearly, calculate the assessable profits arising in the opening years of trading and, where relevant, clearly identify any overlap profits.

Note: where relevant, you may pro-rata by reference to months rather than days.

Total 20 Marks

QUESTION 3

Fergus is married to Catherine and they have two children aged 5 and 7. Fergus is the financial director of **BEDO Limited**, a large garden centre and accessories company with a European-wide market presence. Fergus' basic salary is £100,000 per annum. He pays 8.5% of his salary into the company pension scheme and a further £500 per month into a private pension scheme. Fergus' employment package also includes the following:

- **Car (#1):** List price £27,000, not including upholstery accessories (£650) and wheel options (£750). This car has a CO₂ emissions rating of 214 gms/km. This car was used by Fergus until 6th September when it was replaced by car #2.
- **Car (#2):** List price £31,500, CO₂ emissions rating of 231 gms/km.
- All petrol for both cars had been paid for by BEDO Limited.
- Fergus had borrowed £10,000 from BEDO Limited in March 2012 at 1.5% interest in order to pay for a loft conversion of the detached garage at his house. Fergus had repaid £2,500 at the end of September 2012.
- Fergus receives a 'round sum' allowance of £250 per month. In 2012/13 he had submitted supporting receipts totalling £1,963.
- When Fergus' last company laptop (which had cost the company £600 in June 2010 but was worth £50 in October 2012) was due an upgrade in October 2012, he was allowed to keep the old one after the company had bought a replacement laptop for £850.
- Fergus lived in a company owned apartment for one month during 2012/13 when his family home was being repainted. BEDO Limited purchased this apartment (which has a rateable value of £700 per annum) for £105,000 in 2010. The company had spent £5,000 furnishing the apartment when they purchased it.
- Fergus elected to have a £225 per month salary sacrifice deduction for the purposes of childcare vouchers. This salary sacrifice ran throughout 2012/13. During the year BEDO Limited paid £40 directly to an optician so that Fergus could have his eyes tested.
- Fergus received a cash award of £500 for the happy coincidence of his 10th wedding anniversary and his 10th year working for BEDO Limited.
- Fergus travels first class when he travels on business. His flights (6 trips in 2012/13) cost a total of £3,500. On three occasions, he arranged trips for the end of the week which allowed Fergus the opportunity to stay on for the weekend at the relevant destination. Fergus paid for any related weekend accommodation expenses.

Fergus' other income and expenditure is itemised below:

	£
Bank Interest (received).....	1,900
Dividends (received).....	2,700
Gift Aid Church Donations.....	1,200
Professional Accounting Body Subscriptions.....	400
PAYE deductions.....	29,818

Required

Calculate the income tax liability and any balance of tax owing by, or refundable to, Fergus for 2012/13.

Total 20 Marks

SECTION B

Answer ANY TWO of the three questions

QUESTION 4

- (i) **Jeff** has gross taxable income from self-employment of £125,000 in 2012/13 and makes personal pension contributions of £1,250 per month. During 2012/13 Jeff made donations to a recognised charity in the amount of £5,900. Jeff had signed a gift aid declaration in respect of these charitable donations.

Required

Calculate Jeff's available personal allowance in 2012/13.

(4 Marks)

- (ii) **Kevin** and **Petra** had signed a declaration of unequal entitlement (80% in Kevin's favour) with respect to income arising on a savings account held in both their names. The savings account had interest paid of £560 in 2012/13.

Required

Calculate the amount of savings income that will be assessed to each of Kevin and Petra in 2012/13.

(3 Marks)

- (iii) **Frank's** employer had lent him £4,500 at a 1% rate of interest on 6th June 2012. Frank had not repaid any capital on this loan by 5th April 2013.

Required

Calculate Frank's benefit-in-kind in 2012/13 in respect of this employer loan.

(3 Marks)

- (iv) **Ed** has a salary of £60,000 and has, in addition to his basic salary, total taxable benefits in respect of a car (assessable benefit: £2,400), fuel (assessable benefit: £1,200) and accommodation (assessable benefit: £4,800).

Required

Identify the class of National Insurance contributions payable on these benefits, noting by whom it is payable, and calculate the liability.

(3 Marks)

- (v) **Mike** owns an apartment in Belfast, bought for his daughter's use when she was studying at university. After she had graduated and moved away to London, Mike had the apartment repainted at a cost of £1,200, bought new furniture at a cost of £3,000 and removed the bath in order to install a walk-in shower at a cost of £1,000. After completing the work the apartment was unoccupied for 13 months until it was eventually let.

Required

Briefly discuss whether or not Mike can treat any of these items of expenditure as deductible expenditure in respect of any eventual (related) rental income received by Mike.

(3 Marks)

Question 4 is continued on the next page

- (vi) While adjusting the profits for the local veterinary practice (**Amanda T/A “Ruff Stuff”**) you notice the following items of expenditure:

	£
Gifts to Customers (Calendars with canine photos & business logo).....	350
Donation to ‘Lonely Paws’, a local dog shelter.....	100
Fixed Penalty Parking Fines.....	60
Increase in general bad debt provision.....	510
Bad Debts Written Off.....	213
Complimentary Tea/Coffee for Customers.....	119
Membership of College of Veterinary Surgeons.....	600
Payment to Amanda’s son who maintains her books.....	900
Dog food bought through the business for Amanda’s pet dog (selling price: £640) ...	384

Required

Identify the disallowable expenditure from the above list of expenditure.

(4 Marks)

Total 20 Marks

QUESTION 5

- (i) **Enda** sells a packaged product consisting of a book (cost price £3) and a novelty toy (cost price £7). The packaged product sells for £10 (net).

Required

Calculate the VAT chargeable on this product.

(4 Marks)

- (ii) **Mariame** runs a 'U-Trim' slimming course which takes place over 8 weeks. Enrolees attend meetings, receive a DVD, booklets & leaflets, one 6-pack of slimming shakes and attend seminars. Mariame charges for the course using the following costings based on a class of 20:

Item	£
Mariame's Time.....	24
Book.....	4
DVD.....	5
Leaflets (photocopying).....	5
Slimming Shakes.....	8
Total Cost (per person).....	<u>46</u>

Mariame charges £90 (net of VAT) per participant and has been advised by HMRC that she is making a composite supply.

Required

Briefly explain the essential nature of a composite supply and advise Mariame of the VAT properly chargeable on this supply.

(3 Marks)

- (iii) **Cathy** makes the following sales during VAT Quarter 3 of 2012/13 (all figures being stated net of VAT, where relevant):

Outputs	£
Sales taxable at the standard rate.....	118,194
Sales taxable at the zero rate.....	74,389
Sales exempt from VAT.....	38,346
Inputs	
Purchases relating directly to supplies taxable at the standard rate.....	63,455
Purchases relating directly to zero rated supplies.....	35,042
Purchases relating directly to exempt supplies.....	1,894
Purchases un-attributable to either taxable or non-taxable supplies.....	3,788

Required

State if Cathy passes the (original or simplified) de minimus limit tests in Quarter 3 of 2012/13 and calculate her refundable VAT for this quarter.

(5 Marks)

- (iv) **Joanne** is a VAT registered dress-maker and operates on a VAT reporting cycle of months ending 31st January, 30th April, 31st July & 31st October. On July 20th she received a £500 deposit in respect of a wedding dress (ordered on that day) and a further £500 on deposit at the date of the final fitting on August 10th. The dress was completed by Joanne on October 28th and the customer collected the dress on the following day. Joanne invoiced the customer for the balance (£1,000) on November 5th.

Question 5 is continued on the next page

Required

Identify the relevant tax points for VAT purposes and the VAT periods during which the relevant VAT would be recorded in respect of the above deposits and the invoiced amount.

(4 Marks)

- (v) **Donald** is a gardener, having started in business on June 10th 2012. In anticipation of this business commencement, Donald voluntarily registered for VAT on May 1st. At the outset he had bought gardening equipment as follows (with the cost net of VAT shown in brackets): Ride-on lawn-mower (£1,000), hedge-trimmer (£150), leaf blower (£100), stock of fuel, fertiliser, weed-killer & sundry equipment (£500). Donald immediately reclaimed input VAT on all of these purchases.

In September 2012, not having reached any statutory limits, Donald decided it would be best to de-register for VAT so as to reduce the cost of his services. At this time Donald estimated that approximately 25% of 'stock' was unused and he still owned all of his capital equipment which he had initially purchased and on which VAT had been reclaimed.

Required

Explain the effect of Donald's VAT deregistration in September 2012.

(4 Marks)

Total 20 Marks

QUESTION 6

Richard, a software engineer, is single, aged 32 and lives in Belfast. He owns the house in which he lives in the Stranmillis area and lets some rooms in his house to postgraduate students so as to provide a useful additional cash flow to help with his mortgage payments.

Richard lets two of the four rooms in his house at the rate of £295 and £325 per calendar month, respectively, with the latter (more expensive) room having been vacant during July and August 2012 after the previous tenant had left and before the new occupant had moved in. Richard had also incurred advertising expenditure of £35 advertising for a new tenant in June. The former (less expensive) room had been fully let throughout the period 1st September 2011 until June 2013. Richard and all tenants have communal use of passageways, living, cooking & bathroom facilities.

In 2012/13, Richard's mortgage expenditure on his house totalled £4,200 in interest payments on his 'interest only' mortgage with a further amount of £5,500 having been paid into a corresponding endowment policy. Richard's other household expenditure was itemised as follows:

Stanmillis Property	£
Insurance.....	400
Rates.....	1,050
Household Utility Expenses.....	2,664

Richard has justified the expensive rental charges to his tenants because he does not further charge them in respect of any of the above expenditure although he points out that, by right, it would be reasonable to otherwise share this expenditure on a 50:50 basis between himself and his tenants.

Richard recently inherited his parent's four bedroom north coast holiday home, which he uses only occasionally. The property is let to university students in the September – June period and to holiday makers during July and August. All of these lettings are managed by a property management company and the terms of the lettings are:

Student Letting: £125 per room per month, payable two months in advance. It is normal for all the rooms to be fully let.

Holiday Letting: For the remainder of the summer, Richard's property was available for letting to holiday makers at the rate of £500 per week, other than the two weeks Richard reserves the house for his personal use. Richard had let the property to holiday makers for 5 weeks during summer 2012. Richard pays for all expenditure relating to the north coast property out of rents received. The relevant expenditure has been itemised as follows:

North Coast Property	£
Rates.....	1,350
Electricity.....	1,900
Heating.....	1,975
Replacement of Bedroom Furniture.....	1,200
Letting Agent Charge.....	10% of rents

Required

Advise Richard if he should claim 'rent-a-room' relief in respect of the rooms let in his Belfast house or not and calculate Richard's total assessable rental income in respect of his two properties. Advise him also if he would be permitted to consider the north coast property as a 'holiday rental' property.

Total 20 Marks

1st Year Examination: August 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:

		<u>Alex</u>	<u>Dara</u>	<u>Robert</u>	<u>Francis</u>
Cumulative Gross Pay to Week 21				£ 7,770.00	£ 13,053.00
Pension to week 21					-£ 652.65
CCV to week 21					-£ 840.00
Payroll giving to week 21					-£ 105.00
Pay in Week 22		£ 395.00	£ 985.00	£ 405.00	£ 558.00
Pension week 22		-£ 19.75	-£ 49.25	-£ 20.25	-£ 27.90
CCV week 22					-£ 40.00
Payroll giving week 22				-£ 10.00	-£ 5.00
Free-pay	£8,109 x 1/52 £6,359 x 1/52 £7,959 x 22/52 £8,109 x 22/52	-£ 155.94	-£ 122.29	-£ 3,367.27	-£ 3,430.73
Taxable Pay to Week 22		<u>£ 219.31</u>	<u>£ 813.46</u>	<u>£ 4,777.48</u>	<u>£ 8,509.72</u>
Taxed as Per:					
£ 219.31	20%	<u>£ 43.86</u>			
£34,370 x 1/52	20%		£ 132.19		
£ 152.50	40%		£ 61.00		
£ 4,777.48	20%			£ 955.50	
£ 8,509.72	20%				£ 1,701.94
Less: Tax Paid to Date				<u>-£ 911.20</u>	<u>-£ 1,657.11</u>
Tax Due in Week 22		<u>£ 43.86</u>	<u>£ 193.19</u>	<u>£ 44.30</u>	<u>£ 44.83</u>
National Insurance Contributions					
Primary					
£395-£146	12%	£ 29.88			
£817-£146	12%		£ 80.52		
£985-£817	2%		£ 3.36		
£405-£146	12%			£ 31.08	
£518-£146	12%				£ 44.64

Marks
Allocated
Each entry x
0.5 mark

Each entry x 1
mark

Each entry x 1
mark - inc
1 mark for
each M1 basis
(non-cum.
computation)

Each entry x 1
mark

Solution 1 (Cont'd)

Secondary	£395-£144	13.8%	£	34.64				
	£985-£144	13.8%			£	116.06		
	£405-£144	13.8%					£	36.02
	£518-£144	13.8%						£ 51.61

Marks
Allocated
Each entry x 1
mark

Total marks available = 30. Multiply by 2/5 to get marks/12.

(b)

- P35 – employers are obliged to complete this form summarising all employee P11's and return to HMRC by May 19th following the end of the tax year.
- P60 – prepared for each employee detailing earnings and tax for the year. Provided to the employee by May 31st following the end of the tax year.
- P14 – contains the same information for each employee as the P60 but submitted instead to HMRC by May 19th following the end of the tax year.
- P11D – records details of directors & employees earning more than £8,500 p.a. and who are in receipt of benefits. Submitted to HMRC by July 6th following the end of the tax year.
- P9D – similar to P11D but for employees earning less than £8,500 p.a. Submitted to HMRC by July 6th following the end of the tax year.
- P38A – Records details of payments made to employees during the year but for whom a form P14 or P38(S) was not completed. Submitted to HMRC by May 19th following the end of the tax year.
- P38(S) – Completed in respect of student employees who are employed during holiday time only. This forms contains a declaration by the student to this effect and that they do not expect their earnings to exceed £8,105, and an employer statement detailing the payments made to the employee during the holiday period. This form is not submitted to HMRC but is retained by the employer for three years.
- All employers are required to submit their year-end returns electronically.

**Any 4 EOY
points for 2
marks each**

Solution 2:

	<u>YOA</u>	<u>Period</u>		<u>Assessment</u>	Mark Allocated YOA - 1
(i)	2009/10	1/2/10 - 5/4/10	2/11 x £10,450	£ 1,900.00	3
	2010/11	P/E 31/12/10 1 Mnth to 31/1/2011	1/12 x £21,468	£ 10,450.00 £ 1,789.00	4
	2011/12	Y/E 31/12/11		£ 21,468.00	2
	2012/13	Y/E 31/12/12		£ 25,968.00	2
	Overlap	1/2/10-5/4/10 1/1/11 - 31/1/11		£ 1,900.00 £ 1,789.00	4
(ii)	<u>YOA</u>	<u>Period</u>		<u>Assessment</u>	YOA - 1
	2010/11	1/5/10 - 5/4/11	11/12 x £12,300	£ 11,275.00	3
	2011/12	Y/E 30/4/11		£ 12,300.00	2
	2012/13	Y/E 30/4/12		£ 15,780.00	2
	2013/14	Y/E 30/4/13		£ 14,340.00	2
Overlap	1/5/10 - 5/4/11		£ 11,275.00	2	
(iii)	<u>YOA</u>	<u>Period</u>		<u>Assessment</u>	YOA - 1
	2009/10	1/1/10 - 5/4/10	3/17 x £21,386	£ 3,774.00	3
	2010/11	6/4/10 - 5/4/11	12/17 x £21,386	£ 15,096.00	3
	2011/12	12 M/E 30/5/11	12/17 x £21,386	£ 15,096.00	3
	2012/13	Y/E 30/5/12		£ 15,804.00	2
	2013/14	Y/E 30/5/13		£ 16,812.00	2
Overlap	1/6/10 - 5/4/11	10/17 x £21,386	£ 12,580.00	3	
(iv)	<u>YOA</u>	<u>Period</u>		<u>Assessment</u>	YOA - 1
	2009/10	1/1/10 - 5/4/10	3/14 x £33,138	£ 7,101.00	3
	2010/11	12 M/E 28/2/11	12/14 x £33,138	£ 28,404.00	3
	2011/12	Y/E 28/2/12		£ 28,260.00	2
	2012/13	Y/E 28/2/13		£ 29,088.00	2
Overlap	1/3/10 - 5/4/10	1/14 x £33,138	£ 2,367.00	3	

Neat, professional layout = 1 mark. Total marks = 60. Divide by 3 to get marks/20.

Solution: 3

W1	Basic Salary	£ 100,000.00		
	CCV	-£ 2,700.00		
	Pension	<u>-£ 8,500.00</u>		
		£ 88,800.00	£ 88,800.00	
W2	Car #1			
	List Price	£ 27,000.00		
	Upholstery	£ 650.00		
	Wheels	<u>£ 750.00</u>		
		£ 28,400.00		
	Co2	33%		
	Usage - 5 Months			
	BIK Car #1	£ 3,905.00	£ 3,905.00	5
	Car #2			
	List Price	£ 31,500.00		
	Co2	35%		
	Usage - 7 Months			
	BIK Car #2	£ 6,431.25	£ 6,431.25	3
W3	Fuel Car #1			
	£20,200 x 33% x 5/12	£ 2,777.50	£ 2,777.50	2
	Fuel Car #2			
	£20,200 x 35% x 7/12	£ 4,124.17	£ 4,124.17	2
W4	Loan (average method)			
	(£10,000+£7,500)/2 x 4%	£ 350.00		
	£ 10,000.00	1.50%		
		6 Months	-£ 75.00	
	£ 7,500.00	6 Months	<u>-£ 56.25</u>	
	BIK	£ 218.75		
	Loan (exact method)			
	£10,000 x (4%-1.5%) x 6/12	£ 125.00		
	£7,500 x (4%-1.5%) x 6/12	<u>£ 93.75</u>		
	BIK	£ 218.75	£ 218.75	5
	<i>Note: either method produces the same result.</i>			
W5	Round Sum Allowance	£ 3,000.00		
	Receipts	<u>-£ 1,963.00</u>		
	Excess	£ 1,037.00	£ 1,037.00	2
W6	Laptop			
	MV on transfer	£ 50.00		
	less: Price Paid	<u>£ -</u>		
	BIK	£ 50.00		
	New Lap-top: £850 x 20% x 5/12		£ 70.83	1
	MV when first provided	£ 600.00		
	BIK 2010/11 (20% x 10/12)	-£ 100.00		
	BIK 2011/12 (20%)	-£ 120.00		
	BIK 2012/13 (20% x 7/12)	<u>-£ 70.00</u>	£ 70.00	
		£ 310.00		
	less: Price Paid	<u>£ -</u>		
	BIK	£ 310.00	£ 310.00	5

						Marks allocated
W7	Apartment					
	GAV x 1/12		£	58.33		
	Additional					
	£105,000-£75,000 x 4% x 1/12		£	100.00		
	Furniture					
	£5,000 x 20% x 1/12		£	83.33		
	Total Accom. BIK		£	241.67	£ 241.67	6
W8	Cash Award		£	500.00	£ 500.00	1
W9	Bank Interest	£1,900/0.8	£	2,375.00	£ 2,375.00	
W10	Dividends	£2,700/0.9	£	3,000.00	£ 3,000.00	
				Subscriptions	-£ 400.00	
		(Gross)		Private Pension	-£ 7,500.00	
		(Gross)		Gift Aid	<u>-£ 1,500.00</u>	
W11	Adjusted Net Income				£ 104,461.17	
	Threshold				<u>-£ 100,000.00</u>	
	Excess				<u>£ 4,461.17</u>	
	1/2 Excess				-£ 2,230.58	
	PA				<u>£ 8,105.00</u>	
	Adjusted PA				<u>£ 5,874.42</u>	3
W12	Gift Aid	£1,200 x 100/80		£ 1,500.00		1
W13	Private Pension	£500 x 12 x 100/80		£ 7,500.00		1
Income Tax Computation Fergus 2012/13						
W1	Salary		£	88,800.00		2
	BIK					
W2	Cars		£	10,336.25		
W3	Fuel		£	6,901.67		
W4	Loan		£	218.75		
W5	Round-sum All.		£	1,037.00		
W6	Laptop		£	450.83		
W7	Accommodation		£	241.67		
W8	Cash Award		£	500.00		
W9	Bank Interest				£ 2,375.00	2
W10	Dividends				£ 3,000.00	2
	Subscriptions		-£	400.00		2
				£ 108,086.17	£ 2,375.00	
				<u>-£ 5,874.42</u>		
W11	PA (adjusted)				£ 3,000.00	1
	Taxable Income		£	102,211.75	£ 2,375.00	£ 3,000.00
Taxed As Per						
	£ 34,700.00	20%	£	6,940.00		1
W12	£ 1,500.00	20%	£	300.00		1
W13	£ 7,500.00	20%	£	1,500.00		1
	£ 58,511.75	40%	£	23,404.70		1
	£ 2,375.00	40%	£	950.00		1
	£ 3,000.00	32.50%	£	975.00		1
				£ 34,069.70		
	Tax Credit on Dividends		-£	300.00		1
	Tax Burden		£	33,769.70		
	less: Paid at Source					
	Bank Interest		-£	475.00		1
	PAYE		-£	29,818.00		1
	O/s Balance of Tax		£	3,476.70		

Professional layout = 2 marks. Total = 60. Divide by 3 to get marks/20.

Solution 4:

(i)	Gross salary	£ 125,000.00		
	Pension (gross)	-£ 18,750.00		
	Charitable giving (gross)	<u>-£ 7,375.00</u>		
		£ 98,875.00		
	Threshold	<u>-£ 100,000.00</u>		
	Excess	£ -		
	1/2 Excess	£ -		
	PA	<u>£ 8,105.00</u>		
	PA Adjusted	<u>£ 8,105.00</u>		4
(ii)	Kevin	£560 x 80% x 100/80	£ 560.00	1.5
	Petra	£560 x 20% x 100/80	£ 140.00	1.5
(iii)	NIL as the loan is less than £5,000.			3
(iv)	BIK			
	Car	£ 2,400.00		
	Fuel	£ 1,200.00		
	Accommodation	<u>£ 4,800.00</u>		
		<u>£ 8,400.00</u>		
	Class 1A NIC (13.8%)	<u>£ 1,159.20</u>	by 19th July 2013, by employer.	3
(v)	Mike is permitted to deduct expenses (so long as they are, in nature, a normally deductible expense) and they have been incurred within seven years of the commencement of the letting and the expenses were not a necessity to facilitate the letting. In this case the repainting (effectively making good wear & tear) is allowable but the cost of the bath removal and shower installation is not (capital). Mike could claim wear & tear allowance as relief for the cost of the furniture.			
(vi)	Disallowed Expenditure			
	Parking Fines	£ 60.00		
	Increase in BD provision	£ 510.00		
	Complimentary tea/coffee	£ 119.00		
		£ 640.00		
	The cost of the dog food isn't disallowed but additional income would be brought into the adjusted profits computation of £640			

**Any 3 for
4 marks**

Solution: 5

- (i) A mixed supply consisting of a zero rated book & SR toy;

		£
Toy element	£1/£4 x £10 =	2.50
		£
VAT at 20%		0.50
		£
Book element	£3/£4 x £10 =	<u>7.50</u>
		£
VAT inclusive selling price		<u>10.50</u>

- (ii) A composite supply consists of mutually inseparable parts. The correct VAT treatment bears cognisance of the overall nature of the supply. In this case, only the book would be zero rated & the remainder of the supply would be considered a standard rated supply in which case the correct VAT charge would be:

		£
£90	x 20% =	18.00

- (iii) Input VAT re:

		£
Taxable Supplies	19,699.40	(£63,455+£35,042) x 20%
		£
Exempt Supplies	378.80	(£1,894 x 20%)
		£
Unattributable Input VAT	757.60	(£3,788 x 20%)

(£118,194 + £74,359) / (£118,194 + £74,359 + £38,346) x 100 =	83.39%
Rounding up to:	84%

Unattributable input VAT refundable:

£		£
757.60	84%	= 636.38

Unattributable input VAT non-refundable:

£		£
757.60	16%	= 121.22

Non-refundable input VAT 378.80Total non-refundable 500.02

The non-refundable input VAT is less than £625 per month (£500.32 / 3 = £166.77) AND is less than 50% of total input VAT (original test). Equally, the non-refundable input VAT is less than £625 per month AND the value of exempt supplies is less than 50% of the value of all supplies (simplified test #1). Either way, Cathy's business would be considered de minimus in this quarter and so all input VAT (£19,699.40 + £378.80 + £757.60 = £20,835.80) is refundable.

- (iv) The first deposit is received on 20th July = tax point for first £500 (£500 x 1/6 = £83.33 included in VAT return for quarter ended 31st July.

The second deposit is received on 10th August = tax point for second £500, giving output VAT of £83.33 to be included in VAT return for quarter ending 31st October.

As the customer was invoiced for the final balance with 14 days of collection of the dress, 5th

November is the tax point for the balance of £1,000. Include for Q/E 31st January.

Solution 5 (*Cont'd*)

- (v) Donald is perfectly entitled to deregister for VAT assuming he has not triggered any mandatory registration limits and that the value of his taxable supplies will not exceed £75,000 in the next 12 months. Donald would then have to refund the previously reclaimed VAT on capital assets and on any 'stock' still at hand on the agreed date of deregistration.

Solution 6:**W1** *Treating as 'Rent-a-room'*

Lodger income (gross rents received)	
12 x £295	£ 3,540.00
10 x £325	<u>£ 3,250.00</u>
	£ 6,790.00
Rent-a-room limit	-£ 4,250.00
Excess	<u>£ 2,540.00</u>

Marks
Allocated

2

2

2

W2 *Treating as Straight Rental Income*

Lodger Income		£ 6,790.00
less: Expenses		
Interest	50%	-£ 2,100.00
Advertising		-£ 35.00
Insurance	50%	-£ 200.00
Rates	50%	-£ 525.00
Expenses	50%	-£ 1,332.00
Wear & Tear		-£ 473.30 (£6,790-£525-£200-£1,332) x 10%
Net rental Income		<u>£ 2,124.70</u>

1

1

1

1

1

1

2

W3 *North Coast Lettings**Student Lettings*

April 2012-June 2012	3 months x 4 x £125	£ 1,500.00
Sep. 2012-March 2013	7 months x 4 x £125	£ 3,500.00

4

Holiday Letting

July/Aug. 2012	5 weeks x £500	<u>£ 2,500.00</u>
		£ 7,500.00

2

less: Expenses

Letting Agent	10% x £7,500	-£ 750.00
Wear & Tear [(£7,500-£1,350-£1,900-£1,975) x 10%]		-£ 247.60
Rates	£ 1,350.00	
Electricity	£ 1,900.00	
Heating	<u>£ 1,975.00</u>	
	£ 5,225.00	x 50/52
		<u>-£ 5,024.04</u>

2

2

1

1

1

1

Taxable Income**£ 1,478.37**

Note: The Wear & Tear allowance could be forgone in order to claim for the replacement cost of furniture.

Solution 6 (Cont'd)

Considering Richard's rental income from the lodgers as normal rental income results in taxable income of £2,124 (W2). If Richard were to claim rent-a-room relief, his excess rental income (against which he could claim no further expenses) would be £2,540 (W1). Obviously, it would **be advantageous (marginally) for Richard to wave the rent-a-room allowance for the purposes of taxing the income from the lodgers.**

Richard's rental Income 2012/13

Lodgers (W2)	£ 2,124.70
North Coast Property	<u>£ 1,478.37</u>
	<u>£ 3,603.07</u>

The North Coast Property does NOT qualify as a 'holiday letting'.

Marks
Allocated

1

1

Total = 30. Multiply by 2/3 to get mark/20.

1st Year Examination: August 2013**Taxation (NI)****Examiner's Report**

Statistical Analysis – By Question						
Question No.	1	2	3	4	5	6
Average Mark (%)	25%	30%	37%	34%	18%	45%
Nos. Attempting	33	36	36	34	19	14

Statistical Analysis - Overall	
Pass Rate	18.4%
Average Mark	28%
Range of Marks	Nos. of Students
0-39	31
40-49	0
50-59	6
60-69	1
70 and over	0
Total No. Sitting Exam	38
Total Absent	15
Total Approved Absent	0
Total No. Applied for Exam	53

General Comments: It is difficult to think of too many positives to dwell upon for this diet of students, save to commend the minority of candidates who did make the effort to study for the paper and who were duly rewarded. The paper itself contained no surprises and was, in nature and content, standard fare for this examination. I have said it again and will repeat it here: this examination requires a basic knowledge of income tax and VAT and so acquiring will pay dividends to those who make the effort. The results of those who do not are abysmally predictable. Candidates have an excellent range of media and resources available with which to engage with the syllabus and I commend them all to prospective students. To this latter group and future exam candidates in particular, I urge you not to be discouraged in any way by the above very unrepresentative results – you have a wealth of first class resources: use them, apply yourself to study and it is highly probable that you will succeed.

A brief synopsis of each question is as follows (please note that I have not indicated some more common mistakes save for the most common: failure to be familiarized with the mechanics of basic relevant computations or relevant administration).

Question 1:

This question required basic payroll questions. Two of the employees were to be taxed on a month 1 basis, two on a 'regular' code and none on a k-code. Among the employees, there was the usual assortment of pension contributions, child-care vouchers and payroll giving. Only one of the employees was a HR taxpayer. The NIC calculations, as in previous questions of this type, require candidates to distinguish between pension contributions (not deductible for NIC purposes) and CCV (deductible for NIC purposes). The narrative element of the question required candidates to briefly note some end of year payroll issues such as P14/35/60/11D and so forth.

Question 2:

This was a completely straightforward 'basis periods' question with the normal range of 'start-up' business with respect to the duration of their initial accounting period – the issue which is invariably the crux of relevant computations in questions of this nature.

Question 3:

This was the income tax computation in this paper and related to an employed individual in receipt of a number of benefits. All the usual targets for a question of this nature were present: cars, fuel, loans, loaned & transferred assets, accommodation, interest & dividends. Only a very few candidates spotted that the employee's adjusted net income exceeded the threshold (£100k) and accordingly restricted the PA.

Question 4:

This was a, by now, standard question consisting of short-form questions, most of which should have been answered virtually instantly by alert & knowledgeable candidates. For example, the gross interest income shared unequally between the couple (part ii) or the exempt loan (part iii). This is not to imply that other parts of the question were either long or difficult and it was dismal to appreciate just how few candidates recognized that Class 1A NIC were being examined in part (iv) or that the adjusted net income of the employee in part (i) was less than the threshold and that no adjustment to PA was necessary.

Question 5:

As with Q4, this question would have been answered very quickly by prepared candidates. Once again, an abject lack of preparation was evident with respect to mixed supplies, composite supplies, partial exemption, tax points and the effect of de-registration.

Question 6:

Rental income questions have become a regular feature of this examination and, as with similar questions, this example required candidates to recognize income (assessable on a receipts basis) and relevant allowable expenditure. The minor distinguishing feature of this question required candidates to distinguish between 'lodger' income in the context of 'rent-a-room' relief or with this relief waived and assessed under normal rental income conventions.

