
Taxation Northern Ireland

1st Year Examination

August 2012

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.

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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

1st Year Examination : Autumn 2012

Paper : TAXATION(Northern Ireland)

Thursday 23rd August 2012 : 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 2011. The provisions of the Finance Act 2012 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

Philip (trading as Effective Business Solutions) is in business as a business trainer and motivator. His book-keeper has presented you with the following set of accounts:

Philip T/A Effective Business Solutions, Year Ended 31st March 2012

Note		£	£	
1	Turnover			639,157
	Less: Cost of Sales			<u>(345,655)</u>
	Gross Profit			293,502
	Less: Expenses			
2	Wages & salaries.....	95,125		
3	Administration.....	12,987		
4	Telephone.....	1,159		
5	Electricity.....	1,652		
6	Car Expenditure.....	9,406		
7	Insurance.....	5,000		
8	Light & Heat.....	2,646		
9	Professional Expenses.....	3,195		
10	Rent & Rates.....	1,979		
11	Finance.....	19,049		
	Depreciation.....	6,975		
12	Advertising & Promotion.....	12,497		
13	Charitable Expenditure.....	<u>2,050</u>		<u>(173,720)</u>
				<u>119,782</u>

1: Included in **turnover** are the following items:

	£
Dividends from LUM Limited (net).....	851
Interest (Building Society, net).....	645
Interest (ISA).....	311
Proceeds from the sale of two computers.....	250

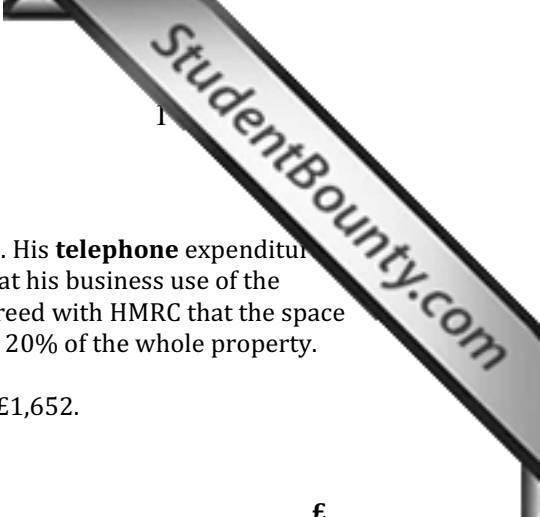
2: **Wages & Salaries** comprise the following:

	£
Philip's management salary.....	65,000
Secretarial support.....	12,000
Other staff wages.....	15,243
Staff NIC.....	<u>2,882</u>
	<u>95,125</u>

Philip gets his girlfriend to provide secretarial support, which she does on week-day mornings. The other staff wages relate to a research assistant who occasionally travels with Philip on business.

3: Included in **administrative** expenses are the following items:

	£
Entertaining – staff Christmas party.....	95
Entertaining – customers.....	2,489
Increase in general provision for bad debts.....	1,779
Bad debts written off.....	1,200
Parking fines.....	60



4: Philip carries on the business from an annex to his permanent residence. His **telephone** expenditure relates to a phone used for both private & business use. Philip estimates that his business use of the phone amounts to 60%. With respect to the property overall, Philip has agreed with HMRC that the space taken up in the property relating to business use equates to approximately 20% of the whole property.

5: Electricity bills for this period relating to the entire property equate to £1,652.

6: Car expenditure comprises the following:

	£
Lease payments.....	5,700
Fuel.....	3,496
Road Tax.....	<u>210</u>
	<u>9,406</u>

Philip leases his car and estimates that his business use of the car is 80%. The vehicle has a Co2 emissions rating of 170 grams/km.

7: Included in **insurance** are the following items:

	£
Vehicle.....	680
Holiday.....	234
Key Man.....	1,965
Property – contents & buildings.....	375

8: Light & Heat comprises the oil heating expense for his home.

9: Professional expenses comprise the following items of expenditure:

	£
Legal advice re: customer contracts.....	1,125
Accounting.....	1,195
Tax Investigation.....	<u>875</u>
	<u>3,195</u>

Philip has been selected by HMRC for investigation and has been paying for professional support through the investigation. Philip does not yet know if the investigation will result in a further tax liability.

10: The **rent & rates** expense relates to rates payable on his home.

11: Finance expenditure comprises the following items:

	£
Mortgage – capital.....	9,440
Mortgage – interest.....	8,996
Credit card interest.....	<u>613</u>
	<u>19,049</u>

The mortgage referred to above relates to Philip’s own home. Philip estimated that 75% of expenditure incurred on his credit card relates to business expenditure.

12: Under **advertising & promotion** are the following items:

	£
Trade journal advertising.....	1,855
Subscription to a trade journal.....	40
Pen drives given to potential clients with the ‘Effective Solutions’ logo.....	1,500

13: Charitable expenditure comprises two items: the cost of purchasing football kit for his son’s football team and a payment to ‘Children in Need’ of £1,759. While Philip planned to have his business logo printed on the football shirts, it was proving to be too expensive & Philip abandoned the idea.

14: On enquiry, it appears that Philip has sent an interim invoice in respect of partial delivery of a training course for a local government agency in the amount of £2,500. This invoice has not been included in the above accounts.

Required

Calculate Philip's adjusted profits for the year to 31st March 2012, showing clearly your workings where relevant.

Total 20 Marks

QUESTION 2

Marie is employed by K-Conk Limited as a regional manager for their chain of retail stores. The company's headquarters are situated in Lisburn although they have stores throughout Northern Ireland and she regularly visits all stores in the company's regional chain. Marie's basic salary package for 2011/12 is £29,000, which is supplemented by a half-yearly bonus payment based on audited results in the stores. Recently her bonus payments have been:

Payment	Date Paid	Bonus based on results to:
£8,326	1 st November 2010	30 th September 2010
£9,400	30 th April 2011	31 st March 2011
£11,300	3 rd November 2011	30 th September 2011
£9,850	5 th May 2012	31 st March 2012

Given the amount of travelling that Marie does, she is provided with a company car. The car has a list price of £17,995, a Co₂ emissions rating of 147 grams/km and an engine rating of 1,200 cc. Marie does not have a fuel account with the company and buys all of her own diesel but does submit mileage claims on a monthly basis. During 2011/12 Marie clocked up 31,249 miles in her car of which she estimated 75% were business related. K-Conk Limited reimburses Marie 20p per mile for business mileage.

Marie has exclusive use of a company laptop to help her when she works remotely on company business. She had her previous laptop (which had cost the company £350 in December 2010) replaced in June 2011 at a cost of £550. Marie bought the previous laptop from the company at a cost of £65 although it had a market value of £100.

Marie enjoys a non-contributory pension scheme with K-Conk Limited (currently her contributions are NIL%) with company contributions at the rate of 15% in 2011/12. Marie has signed up for a salary sacrifice scheme relating to childcare vouchers which she uses to pay for childcare for her daughter Evie. In 2011/12 Marie maximised her salary sacrifice for these vouchers at £243 per month.

During 2011/12, the company sent Marie to London in order to attend two management courses, specifically aimed at middle managers, at a cost of £2,495. The company paid for all flights (cost £250), rail travel (cost £100) and accommodation (cost £400). The second course finished on a Friday and Marie arranged to stay on for the weekend with her sister, who works in London, the return flight being on a Sunday.

K-Conk initiated a new 'staff suggestion' scheme in 2011/12, seeking to reward employees who developed and put forward genuinely innovative business ideas or working practices. In 2011/12 Marie was awarded £250 for developing a new training course for sales staff.

Marie is a silent partner in her husband's practice enjoying a 20% share of his profits. For 2011/12 her husband's adjusted profits were £46,589. She also enjoyed the receipt of dividend cheques from her UK equity investments totalling £720 and building society interest of £125 (net). Marie contributed £673 to a range of charities in 2011/12. She had taken care to sign a gift aid declaration for each of these contributions to charity.

In 2011/12 Marie had tax deducted from her salary and bonus from K-Conk Limited of £8,713.

Required

Complete the income tax computation for Marie for 2011/12, showing clearly all your workings and clearly identifying her burden of taxation and any outstanding balance of tax payable for this year.

Total 20 Marks

QUESTION 3

Your friend Mervyn, who owns and runs his own small business, has asked for your help in preparing payroll computations as he is now becoming very busy. He has supplied the following details for his three employees inclusive of week 21 of 2011/12:

	Mark	Freddie	Jeanette
Gross pay to date (week 21)	£10,096	See below	£7,269
Tax paid to date (week 21)	£1,186	See below	£751
Childcare vouchers	£25 (per week)	-	-
Tax code	719L	See below	765L
Stakeholder pension contributions	£35 (per week)		£20 (per week)
Gross pay (week 22)	£485	£375	£345
Gross bonus (week 22)	£500	-	£350
Gross Pay (week 23)	£475	£370	£355

Mervyn has supplied you with the following additional information:

- **Mark** started his childcare voucher deductions in January 2011, which he uses to pay a child-minder for his daughter when his wife works one day per week.
- **Freddie** has just joined the business but, as yet, has not supplied form P45 in respect of previous employments in 2011/12.
- **Jeanette** will be leaving to go on maternity leave commencing in week 24.
- Mervyn facilitates the stakeholder pension contributions under net pay arrangements, despite the fact that he is not obligated to do so given his small workforce.
- The bonus payable in week 22 is based on results in the year to 30 June 2011 for which Freddie is not eligible.

Required

Complete all payroll computations for Mark, Freddie & Jeanette for weeks 22 and 23 with respect to income tax, primary national insurance & secondary national insurance.

Total 20 Marks

Note: for the purposes of your solution to this question you are not required to complete form P11 or indicate in your answer how you would do so.

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

A more senior colleague has emailed you with a list of VAT related queries and has asked for your advice on the appropriate VAT treatment in all of the cases, listed below.

Required:

Consider each of the issues detailed at (i) – (vi), below, and compose an email to your colleague in response to their queries.

- (i) One of our clients, Alex, has indicated that his trading results for his first twelve months of trading (to 31st December 2011) produced a turnover of £72,000 with the equivalent figure for his second twelve month trading period (to 31st December 2012) anticipated to be the same at £72,000. On further scrutiny, it would appear that, in Year 1, the turnover was averaging £5,000 per month for the first 6 months of the year, rising to an average of £7,000 per month for the last 6 months of Year 1.

By contrast, average monthly turnover in Year 2 is expected to be £7,000 for the first 6 months, falling to a monthly average of £5,000 for the last 6 months of Year 2.

Alex's business is involved in the supply of car parts. Does Alex have to register for VAT or should he have already done so? If he should have, when should he have done so?

4 Marks

- (ii) The office junior was preparing a VAT return for a client for quarter ended 31st March 2012. They discovered a transaction which related to goods which had been ordered on 23rd March, dispatched on 30th March and invoiced on 12th April. Advise the junior if this transaction is to be included in the VAT return for quarter ended 31st March or in the next VAT return for quarter ended 30th June and explain the rules relating to 'basic tax point' with respect to VAT.

3 Marks

- (iii) Fred is a client. One of his best selling items is the 'dooferie'. This is probably because he offers attractive terms when it is sold. These terms include a 5% discount for settlement within 30 days and a further 3% discount for cash payment. I'm concerned that VAT is not being calculated correctly by Fred when he sells this product. For the purposes of illustration, assume that the 'dooferie' has a net selling value of £100. Calculate the appropriate amount of VAT and gross selling price for this product for a customer who (a) pays cash (b) settles within 30 days and (c) settles after 30 days.

4 Marks

- (iv) Roisin incurs some expenditure in the course of running her business which is not wholly & exclusively for trade purposes. Where such expenditure is VAT inclusive, she is not entirely sure how to deal with this when preparing her VAT return. For example, one of Roisin's recent expenses was a telephone bill of £195.60 (£163 + VAT of £32.60). She estimates that the telephone is used 60% for private purposes and 40% for business use. With respect to VAT, advise Roisin on the two methods which she can use to deal with expenditure with a partly private element, using the above telephone bill as an example.

4 Marks

- (v)

Question 4 (Cont'd)

- (vi) Shay uses his car (purchased in May 2010 and with Co₂ emissions rating of 177 grams/km) for business purposes, buying all petrol for the vehicle using a business expense account. Through his business, he has been reclaiming all VAT on this fuel. Shay estimates that of the 23,000 miles he drove in the last accounting year, 17,000 miles related to business use. Advise him (a) if the above treatment with respect to VAT on the fuel is appropriate and what he should be doing to properly account for such VAT on fuel and (b) if he can make a retrospective claim to have the VAT associated with the purchase of this vehicle refunded?

3 Marks

- (vii) Ernest is considering having his VAT related records disposed of in order to make some room in his office. Advise Ernest as to how long he should retain VAT records so as to comply with statutory obligations.

2 Marks**Total 20 Marks****QUESTION 5****Required**

Answer all of the following parts (i) – (vi) showing clearly your workings.

- (i) You have received notification from HMRC at the end of March 2011 that one of your employees, **Fiona**, will have a 'BR' tax code in place until further notice. Her monthly salary is £2,000.

Calculate her new monthly income tax deduction under PAYE for April 2011.

3 Marks

- (ii) **Colm** rents a room in his house (in which he lives) at a rate of £450 per month. Colm is responsible for all bills with respect to the property such as rates, heating, electricity and so forth.

Advise Colm as to whether this income is taxable or not and, if so, what his options are with respect to the taxation of this income.

3 Marks

- (iii) **Catriona** commenced her business on 1st February 2009, drawing up accounts for the first time to 30th September 2009 and annually thereafter. Her adjusted profits in the period to 30th September 2009 were £25,272 and subsequent annual results have been £39,864 (Y/E 30th September 2010) and £37,764 (Y/E 30th September 2011).

Identify clearly the relevant years to which a charge to tax will be made for Catriona, the profits assessable in relevant years of assessment and any overlap profits arising.

Note that you may pro rata by reference to months rather than days in your answer to this part of the question.

4 Marks

Question 5 (Cont'd)

- (iv) **George** is employed by GERGOR Limited and receives a company car. The car has a price of £21,500 and Co₂ emissions of 171 grams/km. The company pays for all diesel that George uses in the car.

Calculate the 2011/12 Class 1A NIC liability for GERGOR Limited in respect of this vehicle.

4 Marks

- (v) **Noah** is an employee of the local council but (due to a temporary receipt of additional income) has underpaid income tax for 2011/12 of £1,750.

Briefly explain to Noah his options for settling this outstanding liability with HMRC.

3 Marks

- (vi) **Indra** uses a lap-top computer supplied to her by her employer for both work and non-work purposes. The laptop cost her employer £600 when purchased and made available to Indra on April 1st 2010. She has continued to use it until 5 April 2012. At the end of 2011/12, the company was proposing to buy her an upgraded 'tablet' PC and, given the low current market value of the laptop, (£90) is proposing selling it to Indra for the nominal sum of £50.

Calculate the taxable benefit arising to be taxed on Indra in 2011/12 (if any) which would arise as a result of her purchase of her old lap-top from her employer.

3 Marks

Total 20 Marks

QUESTION 6

One of your clients is buying a considerable amount of property, heavily discounted in the current slump. He wishes to capitalise on the demand for rental property and has contacted you with a view to gaining a better understanding of how such rental income will be taxed. You have arranged a convenient time for the client & his partner to come in to the office where you will explain the principles of rental income and answer any questions they may have.

Required

Write notes for yourself in advance of the meeting, dealing with the following issues which the client has specifically raised:

- (i) Rental terms with tenants may vary from property to property with rents likely to be charged monthly, quarterly, in advance, in arrears and so forth. The client wishes to know which tax will be levied on rental income and how the rental income is calculated, given the range of terms likely to be offered to tenants.

5 Marks

- (ii) Over what periods are rents taxed? The client wishes to know if they will have to determine a 'trading' year during which rents are calculated and taxed?

4 Marks

- (iii) Are relevant expenses deductible for tax purposes against rental income? If so, give some examples of commonly allowable and non-allowable deductions.

4 Marks

Question 6(Cont'd)

- (iv) Expenses incurred prior to the letting of properties are very likely. Is tax relief for such expenditure available and, if so, on what terms?

3 Marks

- (v) Some of the properties are likely to be let furnished to residential tenants. Explain the operation of 'wear and tear' allowance.

4 Marks

Total 20 Marks

1st Year Examination: August 2012

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.

Solution 1

Adjusted Profits: Philip t/a Effective Business Solutions, Y/E 31/3/2012

Net Profit Per Accounts			£ 119,782.00			
less: Non-trading Income						
Dividends		£	851.00			
BSI		£	645.00			
ISA		£	311.00			
Capital Proceeds		£	250.00			
			<u>-£ 2,057.00</u>	4 x 1 = 4		
			£ 117,725.00			
Add: D/A Expenses						
Management Salary		£	65,000.00	1		
Entertaining Customers		£	2,489.00	1		
General provision for bad debts		£	1,779.00	1		
Parking fines		£	60.00	1		
Telephone	£	1,159.00	x 40%	£	463.60	2
Electricity	£	1,652.00	x 80%	£	1,321.60	2
Car lease	£	5,700.00	x 15%	£	855.00	2
Private Element	£	5,700.00	x 85% x 20%	£	969.00	2
Fuel	£	3,496.00	x 20%	£	699.20	2
Road Tax	£	210.00	x 20%	£	42.00	2
Car Insurance	£	680.00	x 20%	£	136.00	
Holiday				£	234.00	1
Key Man				£	1,965.00	1
Property Insurance	£	375.00	x 80%	£	300.00	2
Light & Heat	£	2,646.00	x 80%	£	2,116.80	2
Tax Investigation				£	875.00	1
Rates	£	1,979.00	x 80%	£	1,583.20	2
Mortgage -capital				£	9,440.00	1
Mortgage Interest	£	8,996.00	x 80%	£	7,196.80	2
Credit card	£	613.00	x 25%	£	153.25	2
Depreciation				£	6,975.00	1
Charitable				£	<u>2,050.00</u>	
				£	<u>106,703.45</u>	1
				£	224,428.45	
Add: Invoice				£	<u>2,500.00</u>	1
Adjusted Profits				£	<u><u>226,928.45</u></u>	Layout 1 (Total/2)

Marks
Allocated

4 x 1 = 4

1

1

1

1

2

2

2

2

2

2

2

1

1

2

2

1

2

1

2

2

1

1

1

**Layout 1
(Total/2)**

Solution 2

W1	Salary		£ 29,000.00	
	Salary Sacrifice		-£ 2,916.00	
	Bonus		£ 9,400.00	
	Bonus		<u>£ 11,300.00</u>	
			<u>£ 46,784.00</u>	
W2	Car	£17,995 x 22%	£ 3,958.90	2
W3	Fuel	31,249 x 75% x (20-13p)	£ 1,640.57	2
W4	Loaned Asset (New)	£550 x 10/12 x 20%	£ 91.67	0.5
W5	Old Computer: £350 x 20% x 2/12		£ 11.67	0.5
	On transfer: Mkt. Val.	£100		
		Paid	<u>£65</u>	
			<u>£ 35.00</u>	2
			<u>£ 46.67</u>	
W6	Income from Self Employment			
	£46,589 x 20%		£ 9,317.80	
W7	Dividends	£720 x 100/90	£ 800.00	
W8	Interest	£125 x 100/80	£ 156.25	
W9	Gift Aid	£673 x 100/80	£ 841.25	

Marie: Income Tax Computation 2011/12

Income from Employment (W1)	£ 46,784.00		
Benefits in Kind:			
Car (W2)	£ 3,958.90		
Expenses (W3)	£ 1,640.57		
Loaned Asset (W4)	£ 91.67		
Computer (W5)	£ 46.67		
Income from Self employment (W6)	£ 9,317.80		
Interest (W8)		£ 156.25	
Dividends (W7)			£ 800.00
	<u>£ 61,839.61</u>	£ 156.25	£ 800.00
PA	£ 7,475.00		
Taxable Income	<u>£ 54,364.61</u>	£ 156.25	£ 800.00

1
1
1

1

Taxation NI

August 2012

1

Solution 2(Cont'd)

Taxed as Per:

£			
35,000.00	x 20%	£	7,000.00
£			
841.25	x 20%	£	168.25
<u>£</u>			
18,523.36	x 40%	£	7,409.34
£			
54,467.94			
£			
156.25	x 40%	£	62.50
£			
800.00	x 32.5%	<u>£</u>	<u>260.000</u>
		£	14,900.09
less: Tax Credit		<u>-£</u>	<u>80.00</u>
		£	14,820.09
less: Paid at Source			
		£	
PAYE		8,713.00	
		<u>£</u>	
Interest		<u>31.25</u>	<u>-£ 8,744.25</u>
			<u>£ 6,075.84</u>

marks
rated

StudentBounty.com

2

1

1

1

1

1

1

(Total x 0.8)

Solution 3**Week 22**

	Mark	Freddie	Jeanette	
Gross Pay to W21	£ 10,096.00	£ -	£ 7,269.00	
less: Pension Contributions	£ 735.00	£ -	£ 420.00	
less: Childcare Vouchers	£ 525.00	£ -	£ -	5 x 1 = 5
Cumulative Pay to W21 net of Salary Deductions	£ 8,836.00	£ -	£ 6,849.00	
Pay in W22	£ 985.00	£ 375.00	£ 695.00	
less: Pension Contributions	£ 35.00	£ -	£ 20.00	
less: Childcare Vouchers	£ 25.00	£ -	£ -	6 x 1 = 6
Cumulative Pay to W22 net of Salary Deductions	£ 9,761.00	£ 375.00	£ 7,524.00	
Free Pay/Additional Pay				
£ 7,199.00 x 22/52	£ 3,045.73			
£ 7,479.00 x 1/52		£ 143.83		
£ 7,659.00 x 22/52			£ 3,240.35	3 x 1 = 3
Taxable Pay Week 22	£ 6,715.27	£ 231.17	£ 4,283.65	
Taxed as Per				
£ 6,715.27 x 20%	£ 1,343.05			
£ 231.17 x 20%		£ 46.23		
£ 4,283.65 x 20%			£ 856.73	
Cumulative Tax to W22	£ 1,343.05	£ 46.23	£ 856.73	
Less: Tax Paid to Date (W21)	£ 1,186.00	£ -	£ 751.00	6 x 1 = 6
Tax Deducted in Week 22	£ 157.05	£ 46.23	£ 105.73	

National Insurance Contributions W22**Primary**

(£817-£139) x 12%	£ 81.36		
(£960-£817) x 2%	£ 2.86		
(£375 - £139) x 12%		£ 28.32	
(£695 - £139) x 12%			£ 66.72
	£ 84.22	£ 28.32	£ 66.72

Secondary

(£960 - £136) x 13.8%	£ 113.71		
(£375 - £136) x 13.8%		£ 32.98	
(£695 - £136) x 13.8%			£ 77.14
Total NIC (Primary & Secondary)	£ 197.93	£ 61.30	£ 143.86

All 6 for 5
mks.

Solution 3 (Cont'd)**Week 23**

Gross Pay to W22	£ 11,081.00	£ -	£ 7,964.00
less: Pension Contributions	£ 770.00	£ -	£ 440.00
less: Childcare Vouchers	£ 550.00	£ -	£ -
Cumulative Pay to W22 net of Salary Deductions	£ 9,761.00	£ -	£ 7,524.00

Pay in W23	£ 475.00	£ 370.00	£ 355.00
less: Pension Contributions	£ 35.00	£ -	£ 20.00
less: Childcare Vouchers	£ 25.00	£ -	£ -
Cumulative Pay to W22 net of Salary Deductions	£ 10,176.00	£ 370.00	£ 7,859.00

Free Pay/Additional Pay

£ 7,199.00 x 23/52	£ 3,184.17		
£ 7,479.00 x 1/52		£ 143.83	
£ 7,659.00 x 23/52			£ 3,387.63

Taxable Pay Week 23	£ 6,991.83	£ 226.17	£ 4,471.37
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Taxed as Per

£ 6,991.83 x 20%	£ 1,398.37		
£ 226.17 x 20%		£ 45.23	
£ 4,471.37 x 20%			£ 894.27

Cumulative Tax to W23	£ 1,398.37	£ 45.23	£ 894.27
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Less: Tax Paid to Date (W22)	£ 1,343.05	£ -	£ 856.73
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Tax Deducted in Week 23	£ 55.31	£ 45.23	£ 37.54
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National Insurance Contributions W23**Primary**

(£450 - £139) x 12%	£ 37.32		
(£370 - £139) x 12%		£ 27.72	
(£355 - £139) x 12%			£ 25.92

	£ 37.32	£ 27.72	£ 25.92
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Secondary

(£450 - £136) x 13.8%	£ 43.33		
(£370 - £136) x 13.8%		£ 32.29	
(£355 - £136) x 13.8%			£ 30.22

Total NIC (Primary & Secondary)	£ 80.65	£ 60.01	£ 56.14
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For simplicity, the solution assumes that bonuses are pensionable.

5 x 1 =

6 x 1 = 6

3 x 1 = 3

6 x 1 = 6

All 6 for 5
mks.
(Total x
0.4)

Solution 4

- (i) Turnover limits for VAT purposes are for any 12 consecutive months - not accounting years. Subsequently, the turnover figure for Alex reveals that by the end of the first month of year 2 the turnover figure has exceeded the mandatory registration threshold of £73,000.

Year 1	Cumulative Turnover
5 x	
£5,000	£ 25,000.00
6 x	
£7,000	£ 42,000.00
Year 2	
1 x	
£7,000	£ 7,000.00
	<u>£ 74,000.00</u>

Alex has reached the threshold for VAT registration by the end of January 2012 and must register within 30 days of this date.

- (ii) The basic tax point determines the VAT period in which a transaction should be recorded. In the case of goods, the basic tax point is the date of dispatch of the goods. The basic tax point is amended to an actual tax point in the event that the customer pays early or a VAT invoice is sent to the customer within 14 days of the basic tax point. Since, in this case, the invoice is sent within the 14 day period, the actual tax point becomes 12th April and the VAT transaction can be included in the next VAT quarterly return (3 months to 30th June).

- (iii) The VAT due is based on the maximum discount available, ie.

Net selling price:	£ 100.00
30 day settlement discount	£ 5.00
Cash discount	£ 3.00
Net after all discounts	£ 92.00
VAT at 20%	£ 18.40

(a)	£92 + £18.40	£ 110.40
(b)	£95 + £18.40	£ 113.40
(c)	£100 + £18.40	£ 118.40

- (iv) Roisin can either claim input tax credit for the business related proportion of the relevant VAT ie. Claim input tax credit for 40% x £32.60 = £ 13.04

OR Roisin can claim input tax for the entire bill

ie. Claim input tax credit for £32.60 but also have a deemed supply equivalent to the private use portion ie. A deemed supply of £32.60 x 60% = £ 19.56

Solution 4(Cont'd)

- (v) (a) Shay can quite legitimately claim input tax credit for his fuel although, when an employee or owner of a business has fuel supplied to them for private use the business must account for output VAT (a deemed supply) according to HMRC fuel scale charges, based on the vehicle's Co2 emissions rating rounded down to the nearest 5%. For Shay's car this equates to output VAT of £56.67 for each 3 month period at the latest rates.
- (b) Shay cannot make a claim (retrospectively or otherwise) to have the VAT on a vehicle refunded unless he can demonstrate it is used exclusively for business purposes such as a hackney cab, or driving school car. Since this is unlikely in this case, the input VAT on the purchase of the vehicle is not refundable.
- (vi) Records in support of a VAT return must be kept for six years following a VAT return.

1.5

2

Solution 5**(i) Fiona**

£
2,000.00 x 20% = £ 400.00

On a 'BR' code, an employee is taxed (without the benefit of free pay) at the basic rate. Since April is the first month of the tax, we do not need to be concerned by cumulative salary and tax paid to date in this answer.

(ii) At this rent, **Colm** should receive £450 x 12 = £5,400 per annum in rent. The income is taxable and Colm can elect either to:

(a) Claim 'rent-a-room' relief (£4,250 pa) and be taxed on the excess. Colm would not be entitled to deduct any expenditure associated with the letting.

(b) Ignore the above relief and elect to be taxed on the gross income receivable

net of related expenditure and a 'wear and tear' allowance.

(iii) Catriona's assessable profits:

YOA	Inc. Dates	Calc.	Profits
2008/09	1/2/09 - 5/4/09	2/8 x £25,272	£ 6,318.00
2009/10	1/2/09 - 30/9/09		£ 25,272.00
	1/10/09 - 31/1/10	4/12 x £39,864	<u>£ 13,288.00</u>
			<u>£ 38,560.00</u>
2010/11	Y/E 30/9/10		£ 39,864.00
2011/12	Y/E 30/9/11		£ 37,764.00
Overlap Profits			
	1/2/09 - 5/4/09		£ 6,318.00
	1/10/09 - 31/1/10		£ 13,288.00

(iv) George

Car List Price	21500	
Co2 %	24.00%	
Diesel Supplement	3.00%	
Car BIK		£ 5,805.00
Fuel BIK		
£		
18,800.00	x Co2 %	<u>£ 5,076.00</u>
Total		<u>£ 10,881.00</u>
Class 1A NIC = BIK x 13.8%		£ 1,501.58

Marks
Awarded

2

1

4

5

3

4

(Total/4)

2

1

1

Solution 5*(Cont'd)*

- (v) **Noah** can either submit an income tax return in respect of 2011/12 by the relevant dates and pay this tax liability by 31/1/13 or notify HMRC of the underpayment and have it collected by a change to his tax code i.e. Effectively Noah pays the underpayment of income tax through PAYE.

(vi) Indra

Market value on acquisition	£	90.00	
less: Price Paid by Indra	£	<u>50.00</u>	
BIK	£	40.00	2
BIK for period until May when asset loaned:			
£600 x 20%	£	<u>120.00</u>	1
	£	<u>160.00</u>	

The above simplified 'transfer of asset' rules apply in the case of computers only.

Solution 6

- (i) Rental or property income is charged to income tax, as are premiums received on granting a short lease and income received from the letting of fixed caravans and permanently moored boats. The property income which accrues during the relevant year of assessment is taxable which, you will note may be different from the rental income billed or received.

HMRC will, however, allow the cash receipts basis to apply to the calculation of property income provided this basis is consistently applied, the rents are less than £15,000 per annum and this does not give a materially different result from the accruals method noted above.

All income (less relevant expenditure) is pooled for all of the owners properties ie. Their property income is considered to be derived from one (large) single letting business.

- (ii) Property income is taxed for a 'year of assessment' or the 'tax year'. For 2011/12 this runs from 6th April 2011 until 5th April 2012. From above, the income included to be taxed in this period is the property income accruing or, in certain circumstances, on a cash receipts basis. There is no need to consider a trading year over which to include relevant property income and expenditure.
- (iii) The deductibility of expenditure against property income is largely similar to the rules governing deductibility of expenditure against trading income. Taxable income is reduced by deducting relevant revenue expenditure which are incurred wholly and exclusively in the pursuit of the property letting business. As with property income, relevant expenditure is included on an accruals basis and typically includes expenditure relating to repairs, maintenance, insurance, management, bad debts and a 'wear and tear' allowance if the property is let furnished (see below). Non-deductible expenditure would include capital expenditure, depreciation and private expenditure.
- (iv) Pre-letting expenses incurred by the landlord are treated as having been incurred on the first day of the letting provided they are incurred within seven years of the property first being let and are of a type that would normally have been deductible.
- (v) When a landlord lets furnished properties they have two choices in dealing with the expense of the furniture which they make available to tenants. They can deduct relevant expenditure on a renewals basis (ie. deduct the cost of furniture as and when it is replaced) OR they can apply the 'wear and tear' allowance. If an individual makes an election to apply the wear and tear allowance no further renewals expenditure may be claimed and the annual deduction for 'wear and tear' is an amount equal to 10% of 'net rents' (ie. rents received less a deduction for any expenses borne by the landlord which would normally be the burden of the tenant – council tax, rates etc). If wear and tear allowance is to be claimed, the claim must be made within one year of the 31st January following the relevant year of assessment.

**4 points
for 5 mks.****3 points
for 4 mks.**

1

2

2

2

1

1

1

2

Marks awarded throughout for other valid points made.

1st Year Examination: August 2012

Taxation (NI)

Examiner's Report

Statistical Analysis – By Question						
Question No.	1	2	3	4	5	6
Average Mark (%)	56%	63%	50%	40%	49%	40%
Nos. Attempting	33	32	33	16	27	20

Statistical Analysis - Overall	
Pass Rate	54%
Average Mark	47.5%
Range of Marks	Nos. of Students
0-39	13
40-49	3
50-59	6
60-69	7
70 and over	6
Total No. Sitting Exam	35
Total Absent	7
Total Approved Absent	1
Total No. Applied for Exam	43

General Comments:

The pass rate at this sitting was, at 54% which is significantly lower than that for the May sitting, as was the average mark (47.5%, itself a 'fail' mark) and, on the face of it, neither statistic is particularly encouraging. Never-the-less, with a small number of candidates at this sitting and the omnipresent stark contrast between the prepared & able candidates relative to the woefully unprepared candidates – it is clear that a significant minority of poorly performing students have a very adverse effect on pass rates and average marks. As is often the case, when students are good, they are very good and when they have not studied the results are as poor as they are predictable. This report will avoid a detailed 'blow-by-blow' account of common mistakes made in each question since, in the case of unprepared candidates, the mistakes were invariably not the result of any misunderstandings about the relevant topic and more due to a complete lack of relevant knowledge or any effort to acquire that knowledge. Having said that, some issues require particular attention:

- It was very disappointing that some candidates were still attempting a 'back' solution to an adjusted profits question. Otherwise, careless mistakes aside (confusing the private/business split in relevant expenditure for example) this question was well answered.
- Very few students seemed to know how to deal with reimbursed mileage for a *company* car in question 2 and a significant number of students bizarrely attempted to extend the *personal allowance* of the taxpayer by the gross amount of a charitable gift! Question 2 was, otherwise, reasonably well answered.
- Question 3 was another well answered question although some confusion seemed to surround bonus payments (which are subject to NIC!), pension contributions which are deductible for tax purposes but not NIC and childcare vouchers which are deductible for both tax & NIC.
- Question 4 was well answered by the prepared candidates but particularly badly answered by those who had obviously not taken the time to prepare for this exam. Even the better students very often completely missed the point of part (i) relating to the timing of compulsory VAT registration and were confused as to working out the VAT due in the event of discounts being offered as in part (iii).
- Candidates generally made a good effort at question 5 although students are advised to familiarize themselves with the new (simplified) rules relating to the BIK arising on the transfer of a computer to an employee – as detailed in the textbook!
- Question 6 was the standout badly answered question at this sitting. This is often the case with narrative questions and it is still a mystery how students may well have attempted a computational question relating to rental income (the subject of this question) but seem unable to explain how they might have done so!