
Taxation Northern Ireland

1st Year Examination

May 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 : Summer 2012
Paper : TAXATION I (Northern Ireland)

Thursday 17th May 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**

Your manager has requested that you complete the relevant payroll computations for MATIN Limited and their three employees Pdraig, Josh and Brian. The relevant details for the three employees, inclusive of month 2, for 2011/12 are given below:

	Pdraig	Josh	Brian
Gross Pay to Date	See below	£7,425	£6,833
Tax paid to date	See below	£2,194	£1,117
Tax Code	See below	K150	See below
Payroll Giving	-	£50 (£25 per month)	-
Pension Contributions	6.5%	6.5%	-

You have been supplied the following information by the book-keeper at MATIN Limited:

- **Josh** had taken one week of annual leave entitlement during month 3. He has 25 annual leave days leave remaining in this year.
- **Pdraig** had just joined MATIN Limited in month 3 and immediately elected to join the company pension scheme. Pdraig's P45 revealed the following:
 - Gross pay to month 2 in 2011/12 of £3,450
 - Tax paid to month 2 in 2011/12 of £452
 - Tax code 713L
- With respect to **Brian**, MATIN Limited have completed payroll computations up to month 2 on a cumulative basis but, from month 3, have now received notice from HMRC that he should be taxed on a week 1/month 1 basis on a 747L tax code until further notice.
- Gross pay for all employees in months 3 & 4 are as follows:

	Pdraig	Josh	Brian
Month 3	£1,900	£3,850	£3,650
Month 4	£2,150 (including overtime)	£3,975	£3,600

Required

Complete all payroll computations for Pdraig, Josh & Brian for months 3 and 4 with respect to income tax, primary & secondary national insurance.

Total 20 Marks

Question 1 (Cont'd)

Note: for the purposes of your solution to this question you are not required to complete form P11 nor are you required to indicate in your answer how you would do so. You may assume that any overtime paid is pensionable.

QUESTION 2

Jonathan is employed by KRIHANLIG Limited working as a divisional manager in logistics & distribution. His work often requires him to travel to the company's network of depots with occasional overnight stays in hotels and guesthouses. Jonathan's basic salary is £34,000, with performance related bonuses calculated around key performance indicators (KPIs) measuring the efficiency of distribution channels for which he has responsibility. Bonuses payable to Jonathan have recently been £3,250 on 1st December 2011 (relating to the company's year to 30th September 2011) and £4,200 on 1st December 2010 (relating to the company's year to 30th September 2010).

Jonathan's package with KRIHANLIG Limited in 2011/12 included the following:

A new company car first made available to Jonathan on 1st October 2011. This car (a Vauxhall) has a list price of £19,815, has a CO₂ rating of 179 grams/km and comes with the following optional extras:

Item	Cost
Passenger Air	£350
Bag.....	
Blue-tooth.....	£95
iPod docking charging/docking system.....	£120
'Hands-free' phone system.....	£175

The Vauxhall replaced his previous company car (a Ford) which he had used up to 30th September 2011. The Ford had a list price of £18,895 and had a CO₂ rating of 159 grams/km although had been bought 'nearly new' by the company at auction for £10,000.

KRIHANLIG Limited paid for all petrol for the Ford, and diesel for the Vauxhall, used by Jonathan although they did require a nominal payment from him of £30 per month toward the cost of fuel. The company also provided a free parking space at the company's head office where Jonathan maintained an office.

Hotel and guesthouse accommodation used by Jonathan during 2011/12 cost the company a total of £2,400. On one occasion, while making a scheduled visit to a company depot in Dublin, Jonathan used accommodation near Dublin airport (at a sterling equivalent cost of £110). Jonathan did not return home after this stay but elected to meet his family at Dublin airport from where they flew to Portugal for their summer holiday.

QUESTION 2 (Cont'd)

Jonathan receives a round sum allowance from the company for £100 per month. During 2011/12 Jonathan incurred miscellaneous verifiable business expenditure (from credit card and other receipts) amounting to £1,350.

KRIHANLIG Limited provided Jonathan with a 3G iPad for his use when travelling on business. Jonathan and his family also use this device extensively at home for web browsing and other private use. The iPad cost the company £649 in January 2011.

In order to build an extension to his home, Jonathan borrowed £25,000 from the company on 1st June 2011. Interest payable by Jonathan to his company accumulates at a rate of 2% on this loan. Jonathan made capital repayments on 1st September 2011 and 1st December 2011 of £2,000 on each occasion.

The company paid for Jonathan and two other regional directors to go on an 'NLP – effective communication' course in 2011/12 at a cost of £1,650 each. Jonathan also attended the company's Christmas party held in a large Belfast city centre hotel. The cost to the company was £5,029 for all of the 107 employees who attended the event.

Jonathan pays 6% of his salary into an approved company pension scheme. KRIHANLIG Limited match Jonathan contributions plus a further 9%.

During 2011/12 Jonathan also received the following:

Income	£
UK dividends.....	630
Building society interest.....	560
Inheritance from grandfather.....	10,000

During 2011/12 Jonathan had £4,897 deducted from his monthly salary as PAYE, had a further deduction of £3,426 as primary class 1 NIC and made 'gifted' payments to a registered charity of £740.

Required

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

Total 20 Marks

Note: Where relevant, you may pro-rata by reference to months, rather than days, in your calculations when answering this question.

QUESTION 3

Your friend Ciaran has disclosed to you his plans to start his own business. Among the very many things worrying him is the subject of VAT if and when Ciaran commences to trade. You have agreed to email Ciaran in order to explain some of issues he has raised with you.

Required

Write notes on the following VAT issues, which you will email to Ciaran:

- (i) Outline the circumstances in which registration for VAT will be compulsory.
2 Marks
- (ii) On the assumption that Ciaran may ultimately become registered for VAT and may wish to ensure that he has appropriate stationery, outline for him the main items which must be included on a VAT invoice.
3 Marks
- (iii) Briefly outline the operation of normal accounting for VAT for a registered person with respect to record keeping, reporting and discharging potential VAT liabilities. (Do not include a discussion of any issues relating to substantial traders)
5 Marks
- (iv) Ciaran is concerned about the administrative burden arising as a consequence of being registered for VAT. Describe the operation of the following schemes with respect to potential eligibility and operation:
- a. Annual Accounting
5 Marks
 - b. Flat-Rate Scheme
5 Marks
- Total 20 Marks**

Answer ANY TWO of the three questions**QUESTION 4****Required**

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

- (i) **Henry** is 79 years old and lives on income from a variety of sources. In 2011/12 this income was as follows:

State Pension.....	£5,311
Pension from Employment.....	£20,550 (Gross)
Interest Income.....	£2,600 (net)
Dividend Income.....	£2,340 (net)

Henry also 'gift aids' his weekly collection payable to his local Church. In 2011/12 this amount was £480 net.

Calculate Henry's personal allowance for 2011/12.

4 Marks

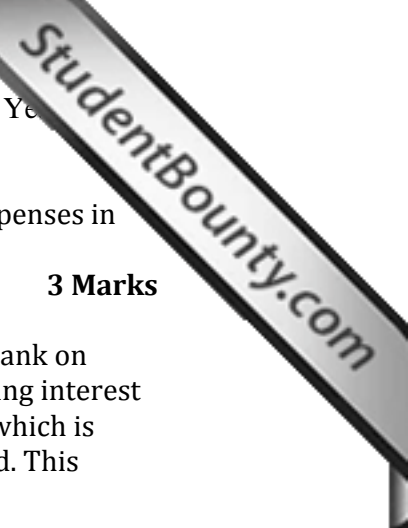
- (ii) **Pat** runs a VAT registered business. Throughout the year he offers a cash discount on sales of 5% and, as a special deal, intends to offer a separate discount of 5% for sales made during June 2011. A customer contacts Pat and wants to know how much he'd have to pay in June 2011 for goods with a net price of £100 if he paid cash when he bought the goods.

Calculate the relevant VAT to be charged by Pat and the gross price of these goods.

3 Marks

- (iii) The following extract is from the books of **Crumble Limited** with respect to expenses categorised as '*Provisions & Write-Offs*'.

	£
Bad Debts Written Off.....	950
Increase in Specific Provision for Bad Debts.....	250
Increase in General Provision for Bad Debts.....	450
Loan to employee written off.....	725
Loan to customer written off.....	650
General provision against potential frost damage...	<u>2,000</u>
	5,025



For the purposes of adjusting profits, calculate the total disallowed expenses in the above 'Provisions & Write-Offs' category.

3 Marks

- (iv) **Pete** is an employee of BIG BANK but has a credit card from another bank on which he has a considerable outstanding balance of £2,000 and is paying interest at the rate of 3% per month. BIG BANK have an ongoing special offer which is designed as an incentive for anyone to take out a BIG BANK credit card. This special deal offers zero% interest on balance transfers for 6 months.

What would Pete's benefit in kind be if he took BIG BANK's offer of zero% interest on the transfer of his current credit card balance on April 6th 2011 and paid the amount off in full on 5th October 2011?

3 Marks

- (v) **Luftgrof Limited** make a late PAYE payment in respect of tax month June 2011 (paying on July 29th 2011) but anticipate that this will be the only time during the year they will be late with a PAYE payment during 2011/12.

What will be the penalty for the company for making the above late payment and what is the normal due date for monthly PAYE payments?

3 Marks

- (vi) **Janet** is a 'front of house' service manager for a large & busy city centre restaurant. During September 2011 she received the following:

Salary.....	£1,500
Monthly bonus (based on takings, paid by her employer).....	£450
Tips received directly from customers.....	£575

Calculate Janet's primary Class 1 NI liability in respect of the above earnings.

4 Marks

Total 20 Marks

QUESTION 5

You have been asked to review the files for each of the following clients with specific respect to consideration of their relevant basis periods.

(a) Martina commenced business on 1st February 2010. Her results to date have been:

Period ended 30 th June 2010.....	£9,375
Year ended 30 th June 2011.....	£24,180
Year ended 30 th June 2012.....	£26,112

(b) Peter commenced business on 1st December 2008 and his results to date have been:

Period ended 31 st May 2010.....	£20,430
Year ended 31 st May 2011.....	£17,472
Year ended 31 st May 2012.....	£18,108

(c) David commenced trading on 1st March 2009. His results to date have been:

Year ended 28 th February 2010.....	£23,556
Year ended 28 th February 2011.....	£22,488
Year ended 29 th February 2012.....	£24,084

(d) Jerry commenced trading on 1st January 2009. Her results have been:

Period ended 31 st March 2010.....	£25,335
Year ended 31 st March 2011.....	£20,592
Year ended 31 st March 2012.....	£22,260

Required

For each of Martina, Peter, David and Jerry:

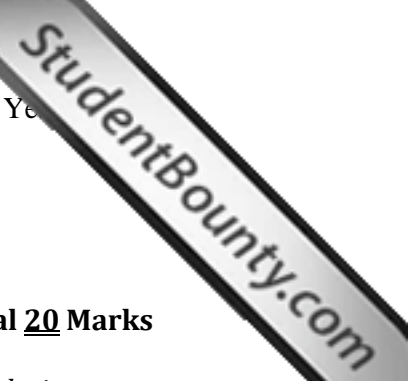
- (i) Identify the relevant years in which a charge to tax will arise (the relevant year of assessment),
- (ii) Determine the assessable profits in all relevant years of assessment

Question 5 *(Cont'd)*

- (iii) Clearly identify any overlap profits which may arise.

Total 20 Marks

Note: You may pro-rata by reference to months rather than days in your calculations when answering this question, unless absolutely necessary to do otherwise.



QUESTION 6

Oran owns two apartments in Belfast in new riverside developments, as well as three houses scattered around the city. Relevant details for the properties are as follows:

(Note: 'pcm' refers to a letting rate 'per calendar month'.)

Property	Letting Rate	Notes
Apartment in ' <i>Sea-View</i> '	Let at £500 pcm payable monthly in advance (first let). Let at £550 pcm for the second let (after the vacant period), payable monthly in arrears.	This property was let from April 2011 through to the end of September 2011. It was vacant through October, November & December and let again from January 2012 through to the end of March 2012. This property is let unfurnished.
Apartment in ' <i>River-View</i> '	Let at £650 pcm payable monthly in arrears.	This property has been let throughout 2011/12 although the tenants are two months behind in their rent. This property is let furnished.
House at <i>Mountain View Drive</i>	Let at £575 pcm payable quarterly in arrears.	This property (which had been let previously in 2010/11) was let for the last 6 months of 2011/12 to a family who moved in while their house was being renovated. They have not paid the second quarterly rent due. The family brought their furniture with them so as to avoid the risk of damage during renovations.
House at <i>Country View Walk</i>	Let at £800 pcm payable quarterly in arrears.	This property has been let throughout 2011/12 and the rental agreement includes a clause for Oran, rather than the tenant, to pay the rates to Belfast City Council of £1,200. The property is let furnished.
House at <i>City Scape Mews</i>	Let at £500 pcm payable monthly in advance (letting 1), £475 pcm payable monthly in advance (let 2) and £450 pcm payable monthly in arrears (let 3).	This property has proven difficult to let as it is situated beside a main train line and several noisy clubs, bars & restaurants. During 2011/12 this property was let for two months (letting 1), vacant for two months, let for a further three months (letting 2), vacant for 1 month and then let for 4 months (letting 3). It is let furnished.

QUESTION 6 (Cont'd)**Notes:**

- (i) Both apartments are let through a letting agent who collects rents and pays over to Oran this rent net of a 10% commission for their services.
- (ii) Oran had placed several adverts in the local press seeking tenants for his houses. The total cost of this advertising was £330 in 2011/12.
- (iii) Oran pays the annual management charge in respect of the two apartments which came to £950 in 2011/12.
- (iv) Oran paid for the property at Mountain View Drive to be decorated before the family moved in at a cost of £850. Connected to this property, Oran has also incurred expenditure of £900 in January 2012 in respect of architects' fees for drawing up plans with respect to an extension he was planning for this property when the current tenants move out.
- (v) During 2011/12 Oran paid the following fees relating to mortgages on the two apartments:

Capital:	£7,800
Interest:	£6,600

Proportionally, the 'Sea-View' apartment accounts for 45% of the combined mortgage payments in respect of the two apartments.
- (vi) Oran bought a new washing machine (replacing the old machine which was irreparable) for the house at Country View Walk at a cost of £325 and replaced an old sofa at a cost of £500 in September 2011.

Required

Calculate Oran's taxable income for 2011/12 in respect of all his property letting activities, detailed above, showing your workings clearly

Total 20 Marks

1st Year Examination: May 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

Month 3

Gross Pay to M2

less: Pension Contributions

less: Payroll Giving

Cumulative Pay to M2 net of Pensions/Payroll Giving

Pay in M3

less: Pension Contributions

less: Payroll Giving

Cumulative Pay to M3 net of Pensions/Payroll Giving

Free Pay/Additional Pay

£ 7,139.00 x 3/12

£ 1,509.00 x 3/12

£ 7,479.00 x 1/12

Taxable Pay Month 3

Taxed as Per

£ 3,441.75 x 20%

£35,000 x 3/12 = £8,750 x 20%

£10,844.38 - £8,750 = £2,094.38 x 40%

£35,000 x 1/12 = £2,916.67 x 20%

£3,026.75 - £2,916.67 = £110.08 x 40%

Cumulative Tax to M3

Less: Tax Paid to Date (M2)

Tax Payable in Month 3

National Insurance Contributions M3

Primary

(£1,900 - £602.33) x 12%

(£3,540 - £602.33) x 12%

(£3,850 - £3,540) x 2%

(£3,650 - £3,540) x 2%

	Padraig	Josh	Brian
Gross Pay to M2	£ 3,450.00	£ 7,425.00	
less: Pension Contributions		£ 482.63	
less: Payroll Giving		£ 50.00	
Cumulative Pay to M2 net of Pensions/Payroll Giving	£ 3,450.00	£ 6,892.38	£ -
Pay in M3	£ 1,900.00	£ 3,850.00	£ 3,650.00
less: Pension Contributions	£ 123.50	£ 250.25	
less: Payroll Giving		£ 25.00	
Cumulative Pay to M3 net of Pensions/Payroll Giving	£ 5,226.50	£ 10,467.13	£ 3,650.00
Free Pay/Additional Pay			
£ 7,139.00 x 3/12	£ 1,784.75		
£ 1,509.00 x 3/12		£ 377.25	
£ 7,479.00 x 1/12			£ 623.25
Taxable Pay Month 3	£ 3,441.75	£ 10,844.38	£ 3,026.75
Taxed as Per			
£ 3,441.75 x 20%	£ 688.35		
£35,000 x 3/12 = £8,750 x 20%		£ 1,750.00	
£10,844.38 - £8,750 = £2,094.38 x 40%		£ 837.75	
£35,000 x 1/12 = £2,916.67 x 20%			£ 583.33
£3,026.75 - £2,916.67 = £110.08 x 40%			£ 44.03
Cumulative Tax to M3	£ 688.35	£ 2,587.75	£ 627.37
Less: Tax Paid to Date (M2)	£ 452.00	£ 2,194.00	
Tax Payable in Month 3	£ 236.35	£ 393.75	£ 627.37
National Insurance Contributions M3			
Primary			
(£1,900 - £602.33) x 12%	£ 155.72		
(£3,540 - £602.33) x 12%		£ 352.52	£ 352.52
(£3,850 - £3,540) x 2%		£ 6.20	
(£3,650 - £3,540) x 2%			£ 2.20
	£ 155.72	£ 358.72	£ 354.72

Marks
Allocated

Solution 1 (Cont'd)

Taxation I NI	May 2012	1 st Year
Secondary		
(£1,900 - £589.33) x 13.8%	£ 180.87	
(£3,850 - £589.33) x 13.8%		£ 449.97
(£3,650 - £589.33) x 13.8%		£ 422.37
Total NIC (Primary & Secondary)	£ 336.59	£ 808.69
		£ 777.09

Month 4

Gross Pay to M3	£ 5,350.00	£ 11,275.00	
less: Pension Contributions	£ 123.50	£ 732.88	
less: Payroll Giving		£ 75.00	
Cumulative Pay to M3 net of Pensions/Payroll Giving	£ 5,226.50	£ 10,467.13	£ -

Pay in M4	£ 2,150.00	£ 3,975.00	£ 3,600.00
less: Pension Contributions	£ 139.75	£ 258.38	
less: Payroll Giving		£ 25.00	
Cumulative Pay to M4 net of Pensions/Payroll Giving	£ 7,236.75	£ 14,158.75	£ 3,600.00

Free Pay/Additional Pay

£ 7,139.00 x 4/12	£ 2,379.67		
£ 1,509.00 x 4/12		£ 503.00	
£ 7,479.00 x 1/12			£ 623.25

Taxable Pay Month 4	£ 4,857.08	£ 14,661.75	£ 2,976.75
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Taxed as Per

£ 4,857.08 x 20%	£ 971.42		
£35,000 x 4/12 = £11,666.67 x 20%		£ 2,333.33	
£14,661.75 - £11,666.67 = £2,995.08 x 40%		£ 1,198.03	
£35,000 x 1/12 = £2,916.67 x 20%			£ 583.33
£2,976.75 - £2,916.67 = £60.08 x 40%			£ 24.03

Cumulative Tax to M4	£ 971.42	£ 3,531.37	£ 607.37
Less: Tax Paid to Date (M3)	£ 688.35	£ 2,587.75	
Tax Payable in Month 4	£ 283.07	£ 943.61	£ 607.37

National Insurance Contributions M4

Primary

(£2,150 - £602.33) x 12%	£ 185.72		
(£3,540 - £602.33) x 12%		£ 352.52	£ 352.52
(£3,975 - £3,540) x 2%		£ 8.70	
(£3,600 - £3,540) x 2%			£ 1.20
	£ 185.72	£ 361.22	£ 353.72

Secondary

(£2,150 - £589.33) x 13.8%	£ 215.37		
(£3,975 - £589.33) x 13.8%		£ 467.22	
(£3,600 - £589.33) x 13.8%			£ 415.47
Total NIC (Primary & Secondary)	£ 401.09	£ 828.44	£ 769.19

Solution 2

W1	Salary		£ 34,000.00		
	Pension		-£ 2,040.00		
	Bonus		£ 3,250.00		£ 35,210.00
W2	Car #2				
	List				
	Price		£ 19,815.00		
	Extras	Air Bag	£ 350.00		
		Blue-Tooth	£ 95.00		
		Docking System	£ 120.00		
		Phone Kit	£ 175.00		
			<u>£ 20,555.00</u>		
	Co2 %	28.00%			
	BIK		£ 5,755.40		
	Assessable BIK (x 6/12)				£ 2,877.70
	Car #1				
	List				
	Price		£ 18,895.00		
	Co2 %	21.00%			
	BIK		£ 3,967.95		
	Assessable BIK (x 6/12)				£ 1,983.98
W3	Fuel				
		£			
	Car #2	18,800.00	28.00%	£	2,632.00
		£			
	Car #1	18,800.00	21.00%	£	1,974.00
W4	Round Sum Allowance				
	£100 x				
	12		£ 1,200.00		
	Related Expenditure		£ 1,350.00		
	Deductible Expense		£ 150.00		

Solution 2 (Cont'd)**Taxed as Per:****Earned Income**

£ 35,000.00	20%	£ 7,000.00
£ 925.00	20%	£ 185.00
£ 1,637.48	40%	£ 654.99
<u>£ 37,562.48</u>		

Solution 2*(Cont'd)***Interest**

£ 700.00	40%	£ 280.00
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Dividends

£ 700.00	32.50%	<u>£ 227.50</u>
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£ 8,347.49

less: Tax Credit (Divs)

-£ 70.00

Tax Liability

£ 8,277.49

less: Paid at Source

Interest

-£ 140.00

PAYE

-£ 4,897.00

O/S Balance of Tax Due

£ 3,240.49

Solution 3

- (i) Registration for VAT is compulsory if;
 - a. the traders taxable turnover in any 12 consecutive months exceeds the statutory threshold for registration (£73,000 from 1 April 2011)
 - b. if the traders expected turnover will exceed the statutory limit in the next 30 days

- (ii) VAT invoices should include the following;
 - a. Invoice number
 - b. Name, address & VAT registration number of the supplier
 - c. Name & address of the customer
 - d. Description of each good or service being supplied and for each a quantity, unit price, net amount payable and the applicable rate of VAT
 - e. Amount of any cash discount
 - f. Total invoice value excluding VAT
 - g. Amount of VAT chargeable

- (iii) Normal accounting for VAT requires a trader to;
 - a. Maintain adequate records in support of all VAT returns with respect to purchases, expenses and supplies (VAT invoices, VAT account, business & accounting records etc)
 - b. Records must be kept for 6 years in support of VAT returns
 - c. VAT returns for a trader in a normal accounting scheme are generally submitted to HMRC on a quarterly basis
 - d. VAT returns show the total input & output VAT and the subsequent VAT liability/refund
 - e. From April 2011, all VAT registered businesses will have to submit their VAT returns online and pay VAT liabilities electronically
 - f. Returns & payments are made by one month & 7 days after the end of the relevant VAT accounting period
 - g. Other relevant points made given credit

- (iv) To include the following main points:
 - a. Annual Accounting
 - i. Available to traders who regularly make payments to HMRC and whose annual taxable supplies are not expected to exceed £1.35mn
 - ii. The trader must be up to date with their VAT returns & payments and not have been convicted of any VAT evasion in the previous 12 months
 - iii. Traders can choose to make payments on account in either nine monthly, or three quarterly instalments. If the first option is chosen, each of the nine *monthly* payments are equal to 10% of the estimated annual VAT liability and are paid in months 4 – 12 of the annual accounting year. If the second option is chosen, each *quarterly* payment is equal to 25% of the estimated annual VAT liability and are paid in months 4, 7 & 10 of the annual accounting year.
 - iv. The balance of VAT payable and the VAT return is paid/returned by two months of the end of the annual accounting year
 - v. A trader must give notice to HMRC if they expect the value of their supplies to exceed £1.6mn in the next 30 days or if the value of their supplies has already exceeded £1.6mn, they must leave the scheme immediately

Solution 3 (Cont'd)

- vi. Obviously this scheme reduces paperwork, gives longer lead times to make returns (2 months rather than 1), manages cash flows and reduces the number of VAT deadlines during the year
- b. Flat-Rate Scheme
- i. Available to traders whose annual taxable (VAT exclusive) turnover is not over £150,000
 - ii. Traders must be up to date with their VAT returns and payments and not convicted of a VAT offence or charged with a penalty for VAT evasion in the previous 12 months
 - iii. The trader continues to charge VAT on sales and pay VAT on purchases as normal
 - iv. The traders VAT return does not reflect point (iii) but rather they apply a 'flat rate' of VAT to their VAT inclusive turnover figure to determine their VAT liability
 - v. The above 'flat rate' depends on the nature of the traders business (industry) and carries a reduction of 1% for their first year of VAT registration
 - vi. The trader must give notice to HMRC if they expect the value of their taxable supplies to exceed £230,000 in the next 30 days. Equally, if the value of their taxable supplies has already exceeded £230,000 the trader must leave the scheme immediately

Allo

Solution**4****(i)****Henry**

State Pension		£ 5,311.00
Pension		£ 20,550.00
Interest	2600 x 100/80	£ 3,250.00
Dividends	2340 x 100/90	£ 2,600.00
less: Gift Aid	480 x 100/80	<u>-£ 600.00</u>
Adjusted Net Income		£ 31,111.00
Abatement		<u>-£ 24,000.00</u>
Excess		£ 7,111.00
1/2 excess		<u>£ 3,555.50</u>
PAA		£ 10,090.00
Restriction PAA		<u>£ 3,555.50</u>
Adjusted		<u>£ 7,475.00</u>

Note: cannot be less than £7,475

(ii)**Pat**

Net Price	£ 100.00
Cash Discount (5%)	-£ 5.00
June Discount	<u>-£ 5.00</u>
Net of Discounts	£ 90.00
Vat at 20%	<u>£ 18.00</u>
Gross Price	<u>£ 108.00</u>

(iii) Crumble Limited - Disallowed Expenses

Bad Debts Written Off	£ -
Increase in Specific Provision	£ -
Increase in General Provision	£ 450.00
Loan to Employee w/o	£ -
Loan to Customer w/o	£ 650.00
General Provision	<u>£ 2,000.00</u>
Total D/A expenses	<u>£ 3,100.00</u>

Mr
Alloca

(iv) Pete

Pete is not getting a preferential rate by virtue of his employment and so, would not have a taxable benefit in kind. Equally, the loan is for less than £5,000 and so no benefit would arise.

(v) Luftegrof Limited

If this is the only late PAYE payment in the year then, under the new arrangements (effective from 19th May 2010), no penalty would be imposed.

Otherwise, the normal due date for PAYE payments is the 19th of the month following the PAYE month (22nd for electronic payments). If the company's average net monthly PAYE payment is less than £1,500 they may pay quarterly rather than monthly.

(vi) Janet

Salary	£ 1,500.00
Bonus	£ 450.00
Tips	£ _____ -
	<u>£ 1,950.00</u>

Primary NIC

£1,950 - £602.33 x 12%	£ 161.72
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Solution 5

	YOA	Accounting Period			Assessable Profits/ Overlap Profits
(a)	Martina				
	2009/10	1/2/2010 - 5/4/2010	2/5 x	£ 9,375.00	£ 3,750.00
	2010/11	1/2/2010 - 30/6/2010	(5 months)		£ 9,375.00
		1/7/2010 - 31/1/2011	7/12 x	£ 24,180.00	<u>£ 14,105.00</u>
					<u>£ 23,480.00</u>
	2011/12	Y/E 30/6/2011			£ 24,180.00
2012/13	Y/E 30/6/2012			£ 26,112.00	
	Overlap	1/2/2010 - 5/4/2010			£ 3,750.00
	Profits	1/7/2010 - 31/1/2011			<u>£ 14,105.00</u>
					<u>£ 17,855.00</u>
(b)	Peter				
	2008/09	1/12/2008 - 5/4/2009	4/18 x	£ 20,430.00	£ 4,540.00
	2009/10	6/4/2009 - 5/4/2010	12/18 x	£ 20,430.00	£ 13,620.00
	2010/11	12 months to			
		31/5/2010	12/18 x	£ 20,430.00	£ 13,620.00
	2011/12	Y/E 31/5/2011			£ 17,472.00
2012/13	Y/E 31/5/2012			£ 18,108.00	
	Overlap	1/6/2009 - 5/4/2010	10/18 x	£ 20,430.00	£ 11,350.00
	Profits				
(c)	David				
	2008/09	1/3/2009 - 5/4/2009	1/12 x	£ 23,556.00	£ 1,963.00
	2009/10	Y/E 28/2/2010			£ 23,556.00
	2010/11	Y/E 28/2/2011			£ 22,488.00
	2011/12	Y/E 28/2/2012			£ 24,084.00
		Overlap	1/3/2009 - 5/4/2009		
	Profits				

Solution 5
(Cont'd)
(d)

Taxation I NI

May 2012

1st Year

Jerry

2008/09	1/1/2009 - 5/4/2009	3/15 x	£ 25,335.00	£ 5,067.00
2009/10	1/4/2009 - 31/3/2010	12/15 x	£ 25,335.00	£ 20,268.00
2010/11	Y/E 31/3/2011			£ 20,592.00
2011/12	Y/E 31/3/2012			£ 22,260.00
Overlap Profits	1/4/2009 - 5/4/2009	5/455 x	£ 25,335.00	£ 222.73

StudentBounty.com

Solution 6

Rental Income

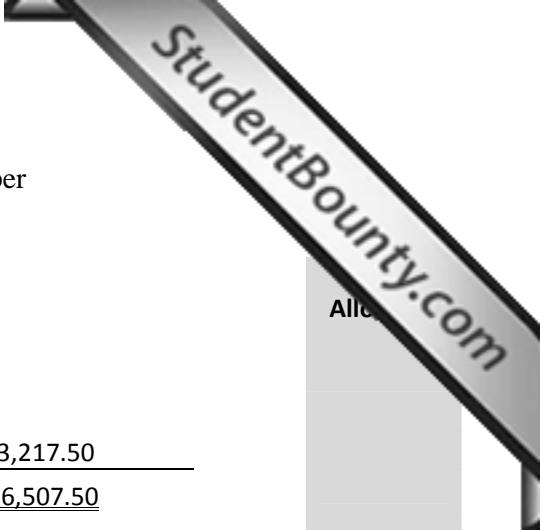
	Sea-View	River View	Mountain View Drive	Country View Walk	City Scape Mews	Allo
£500 x 6	£ 3,000.00					
£550 x 3	£ 1,650.00					
12 x £650		£ 7,800.00				
£575 x 6			£ 3,450.00			
12 x £800				£ 9,600.00		
£500 x 2					£ 1,000.00	
£475 x 3					£ 1,425.00	
£450 x 4					£ 1,800.00	
Total In come	£ 4,650.00	£ 7,800.00	£ 3,450.00	£ 9,600.00	£ 4,225.00	£ 29,725.00

less: Allowable Expenses

Commission:						
10% x £4,650	£ 465.00					
10% x £7,800		£ 780.00				
Advertising - assume equal apportionment			£ 110.00	£ 110.00	£ 110.00	

Solution 6 (Cont'd)

Management charge - ditto	£ 475.00	£ 475.00				
Redecorating			£ 850.00			
Interest	£ 2,970.00	£ 3,630.00				
Rates				£ 1,200.00		
Wear & Tear Allowance:						
10% x £7,800		£ 780.00				



Taxation I NI

May 2012

1st Year Paper

Allo

10% x (£9,600 - £1,200)

£ 840.00

10% x £4,225

£ 422.50

Total Expenses

£ 3,910.00

£ 5,665.00

£ 960.00

£ 2,150.00

£ 532.50

-£ 13,217.50

Taxable Property Income

£ 16,507.50



1st Year Examination: May 2012

Taxation I (NI)

Examiner's Report

General Comments: