
Taxation Northern Ireland

1st Year Examination

May 2014

Exam Paper, Solutions & Examiner's Report



NOTES TO USERS ABOUT THESE SOLUTIONS

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

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

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

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

This publication is copyright 2014 and may not be reproduced without permission of Accounting Technicians Ireland.

© Accounting Technicians Ireland, 2014.



Accounting Technicians Ireland
1st Year Examination : Summer 2014
Paper : TAXATION (Northern Ireland)
Monday 19th May 2014 : 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 2013. The provisions of the Finance Act 2014 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

- (i) Depending on their circumstances, taxpayers may make contributions to an occupational pension scheme OR a private pension scheme.

Required:

Briefly outline how tax relief for pension contributions is facilitated for both occupational and private pension contributions.

(3 Marks)

- (ii) Jack, now widowed, was born on 12th October 1937 and enjoys the following income in 2013/14:

	£
Pension.....	5,616
Net Rental Income.....	19,953
Building Society Interest (Received)...	960
Dividends (Received).....	1,350

Jack also made gift aid donations of £180 to his favourite charity.

Required:

Calculate Jack's personal allowance for 2013/14.

(4 Marks)

- (iii) Jeanette owns a seaside property (furnished) which she lets from April to October (30 weeks) each year, apart from 2 weeks in July which she retains for family use. Jeanette doesn't rent out the dwelling in the winter but uses it for occasional weekends if the weather permits. The average weekly rent is £375 and, other than the 2 weeks retained for personal use, there were 8 unlet weeks in 2013/14. Related expenditure on the property in 2013/14 was as follows:

	£
Rates.....	1,950
Insurance (contents).....	1,700
Advertising.....	150
Wifi.....	300
Heat, Light & Power.....	1,100

Required:

Calculate the Jeanette's assessable rental income for 2013/14.

(5 Marks)

- (iv) Kevin, a wholesale food & drinks distributor, made a number of gifts to employees, customers & charities in 2013/14, as follows:
- To Colm, a favourite employee who is his best performing salesman, £3,500 in June 2013.
 - To his best customers at Christmas, a food-hamper with all of his well-known & most popular food items. Kevin's business logo adorned these food hampers.
 - To ALL customers, a 2014 calendar with a prominent business logo.
 - Kevin sponsored a local branch of 'Help the Aged' with 20 warm winter coats which their volunteers could wear when out helping elderly people in severe winter weather. Each of these jackets had Kevin's business logo on the back and they each cost Kevin £30 plus £10 to get the logo attached.

Required:

Determine, stating your reasons, if the above expenditure items are deductible expenses, or not, for the purposes of calculating Kevin's taxable income.

(4 Marks)

Question 1 is Continued on the Next Page

QUESTION 1 (*Cont'd*)

- (v) Briefly note what Class 1A National Insurance contributions are levied on and who is responsible for paying them.

(4 Marks)

Total 20 Marks**QUESTION 2**

Caoimhe is a solicitor and was self-employed until June 5th 2013. Thereafter, she took up employment with a large multi-national practice which had opened a new office in Belfast. Her earnings for 2013/14 are summarised below:

Earnings until 5th June 2013

Item	£
Fees billed.....	9,025
Related Expenditure (paralegals, administrative support etc.).....	1,500
Fuel.....	540 ¹
Household bills.....	3,692 ²

- This item relates to fuel for Caoimhe's private car until 5th June 2013. She estimated that 65% of her total mileage was for business purposes.
- Household bills refer to the total of household bills for the period 6th April 2013 until 5th April 2014. Caoimhe estimates that (given the home office she had installed in her home) 15% of household bills were business related.
- Caoimhe was not registered for VAT.

Earnings & Benefits in Employment from 6th June 2013 – 5th April 2014**Item**

Monthly Salary.....	£3,950
Monthly Childcare Vouchers Deductions.....	£243
Car.....	List Price..... £26,000
	CO ₂ Emissions..... 167 grams/km
	Hands Free Kit..... £350
Fuel.....	All petrol is paid by her employer although Caoimhe is required to pay a weekly contribution of £35 toward the cost of fuel.
Loan.....	Caoimhe's employer extended her a loan of £6,000, on 6 th June, with interest at 1.5%. Caoimhe had made one repayment of £2,000 on January 31 st 2014.
Eye Test.....	Caoimhe's employer provided her with a private eye test at a cost of £75.
Christmas Party.....	The cost of the Christmas party to the employer was £75 per employee, each of whom was required to make a contribution of £25 toward the cost of the function.

Other Income & Expenditure

- Caoimhe paid annual professional body fees of £450 in 2013/14.
- Caoimhe continues to make private pension contributions of £475 per month (she had not joined her employers private pension fund).
- Caoimhe received dividends in 2013/14 of £1,755.
- Caoimhe received total interest of £470 in 2013/14 (£350 building society interest & £120 ISA interest).
- Caoimhe had tax deducted through the PAYE system in 2013/14 of £5,614.

Required:

Calculate Caoimhe's income tax liability for 2013/14 distinguishing between her total burden of income tax and any outstanding balance of income tax due for this tax year.

Total 20 Marks

QUESTION 3

- (i) Daniel is a VAT registered trader who has decided to offer incentives to his customers in the form of discounts for the period November – January 2013. All sales during these months will be less 10% with a further 5% discount to customers for payment within 30 days. He is unsure how to treat this for VAT purposes.

Required:

Taking the sale of goods with an undiscounted net price of £100, illustrate how much VAT Daniel should charge this customer in the event that they pay within (a) 40 days and (b) 20 days of the original purchase.

(4 Marks)

- (ii) Pierre owns a VAT registered business in County Fermanagh selling traditional woven fabrics. He receives an order from a Dutch customer for fabrics with a net sales value of £3,450 and who does not provide Pierre with a valid Dutch VAT number. One day later he orders some special Spanish dye (cost: £300) from a supplier in Madrid, to whom Pierre gives his UK VAT registration number.

Required:

Explain how Pierre should treat both of these transactions for VAT purposes.

(4 Marks)

- (iii) Evin is registered for VAT and makes both taxable and non-taxable supplies. For Q/E 31st March 2014 the relevant details are as follows:

	Net Sales Value - £	Attributable Input tax - £
Taxable Supplies	22,396	2,463
Non-taxable Supplies	<u>5,985</u>	658
Total	28,381	

The un-attributable input tax for this period was £3,122.

Required:

Calculate the amount of refundable input VAT for Evin for Q/E 31st March 2014.

(6 Marks)

- (iv) Seamus has commenced to trade from his (home) garage as a mechanic. He has decided to register for VAT from the outset and has remembered that he still has the VAT invoices from some time ago relating to an internal re-fitting & re-painting of his garage. He also acquired parts & tools prior to the commencement of trading and paid for the development of a web-page for his business (all VAT invoices retained by Seamus).

Required:

Advise Seamus if any of the VAT relating to the above noted expenditure is refundable.

(3 Marks)

- (v) Substantial traders are defined as those with an annual VAT liability in excess of £2.3m.

Required:

In the absence of any other elections, *briefly* outline how the process for such traders to satisfy their VAT liability differs from other smaller traders.

(3 Marks)**Total 20 Marks**

SECTION B

Answer ANY TWO of the three questions

QUESTION 4

REERAC Limited is a small market research company that employs three members of staff on a permanent basis and, when required, variable numbers of casual part-time workers, some of whom are supplied by an agency.

Given their limited resources, **REERAC Limited** uses the services of your payroll consultancy for the calculation of pay and deductions of their staff. The relevant details for month 5 of 2013/14 are as follows:

	George	Gillian	David
Salary in Month 5 exclusive of all deductions....	£2,208	£3,475	£2,655
Pension Contributions.....	<i>Note 1</i>	<i>Note 1</i>	<i>Note 2</i>
Childcare Vouchers (per month).....	NIL	£190	NIL
		<i>Note 3</i>	
Payroll Giving (per month).....	£20	NIL	NIL
	<i>Note 3</i>		
Cumulative Salary to Month 4 Inclusive exclusive of all deductions.....	£8,980	£13,952	<i>Note 4</i>
Cumulative Tax Deducted to Month 4 Inclusive	£1,007.64	£2,848.80	<i>Note 4</i>
Tax Code.....	924L	K30	<i>Note 4</i>

Notes

- 1 George & Gillian both make contributions to an occupational pension scheme, the deductions to which are facilitated by payroll deduction under net pay arrangements. These contributions are at the rate of 6% and have been in place throughout 2013/14 for both George & Gillian.
- 2 David has not indicated, as yet, that he would like to make any pension contributions through the payroll deduction scheme facilitated by REERAC Limited.
- 3 Both of the childcare voucher deductions and the payroll giving arrangements, for George & Gillian respectively, have been in place throughout 2013/14.
- 4 David has just joined the company and, to date, no P45 has been received in respect of any previous employment. Form P46 has been completed for David.

Required:

- (i) Calculate both the income tax and NIC payroll deductions for George, Gillian and David for month 5 of 2013/14. Please note that you are NOT required to complete form P11 nor are you required to indicate how you would have done so.

(15 Marks)

- (ii) Explain why Gillian, above, may have a tax code beginning with the letter 'K' (commonly referred to as a 'K-code').

(5 Marks)**Total 20 Marks**

QUESTION 5

Consider the following four 'new-start' businesses, below, and the trading results of their early trading periods.

- (i) Joey commenced trading on 1st April 2012 and prepared his first set of financial statements to 31st May 2013 (reporting a profit of £54,810) and further financial statements to 31st May 2014 (reporting a profit of £47,928).
- (ii) Rebecca commenced trading on 1st February 2013 and prepared financial statements to 31st July 2013 (profits: £15,738) and to 31st July 2014 (profits: £33,552).
- (iii) Steve commenced trading on 1st July 2012 and prepared financial statements to 30th June 2013 (profits: £63,756) and to 30th June 2014 (profits: £67,068).
- (iv) Lucy commenced trading on 1st August 2012 and prepared financial statements to 31st August 2013 (profits: £10,179) and to 31st August 2014 (profits: £9,576).

Required:

For each of the four 'new-start' businesses, above, identify ALL of the relevant years of assessment in which a tax assessment will be made, showing clearly the assessable profits arising in each of these years and, where relevant, any overlap profits.

Note: unless absolutely necessary to do otherwise, you may pro-rata by reference to months rather than days.

Total 20 Marks

QUESTION 6

- (i) Explain, giving your reasons, whether income tax and VAT are direct or indirect taxes. **(4 Marks)**
- (ii) Explain the purpose of completing form 64-8 for new tax clients and note to whom this form should be submitted. **(3 Marks)**
- (iii) Detail the appropriate form for submission to HMRC in order to notify them that the individual is in receipt of income not taxed at source, the due date for submission of this form and the three levels of penalties that may be applied to failure to submit this form/failure to notify HMRC of being in receipt of taxable but untaxed income. **(5 Marks)**
- (iv) You receive a telephone call from a friend who has just moved to a new and very well paid job where they will receive a salary of approximately £115,000 per annum. Your friend believes that this job will keep them very busy and that this job will be their only source of income. Explain to them, giving reasons, if they are under any obligation to submit a tax return. **(2 Marks)**
- (v) Where it is necessary to submit a tax return for an individual, outline the due date(s) for returning this form and the penalties for failure to do so within appropriate time-frames. **(6 Marks)**

Total 20 Marks

1st Year Examination: May 2014

Taxation (Northern Ireland)

Suggested Solutions and Examiner's Comments

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.

Statistical Analysis – By Question						
Question No.	1	2	3	4	5	6
Average Mark (%)	59%	65%	40%	67%	64%	36%
Nos. Attempting	216	214	208	193	185	45

Statistical Analysis - Overall	
Pass Rate	72%
Average Mark	57
Range of Marks	Nos. of Students
0-39	45
40-49	16
50-59	49
60-69	38
70 and over	68
Total No. Sitting Exam	216
Total Absent	51
Total Approved Absent	13
Total No. Applied for Exam	280

General Comments:

It was heartening to see a number of outstanding scripts offered up in what was generally a good performance overall.

Candidates who are making use of the various media available to prepare for this examination series and well grounded in the basics of income tax and VAT clearly do well in this examination and this year was no exception. This is likely to continue to be the case and future examination candidates would do well to take note!

Examiner's Comments on Question One

This question was a broad, multiple-part, short-form style question, which looked at tax relief for pension contributions, age allowances, rental income, deductible business expenses and national insurance contributions. Generally well answered in the main, the part of the question on which candidates were most likely to fall foul was part (v) where answers often referred to primary or secondary class 1 NIC rather than class 1A.

Solution 1

- (i) Occupational pension contributions are **dealt with under 'net-pay' arrangements**. This means they are deducted before payroll taxes (PAYE) are calculated and so the taxpayer gets the tax relief 'at source'.

Marks
Allocated

1.5

Private pension contributions are **considered to be paid 'net' of basic rate tax**. This means that for each 80p the taxpayer pays into such a scheme, the scheme can reclaim the basic rate tax from HMRC (20p) and so the taxpayer's pension fund benefits by a total of £1.

1.5

(ii)	Pension	£ 5,616.00	0.5
	Rental Income	£ 19,953.00	0.5
	BSI £960 x 100/80	£ 1,200.00	0.5
	Dividends £1,350 x 100/90	<u>£ 1,500.00</u>	0.5
		£ 28,269.00	
	Charity £180 x 100/80	<u>-£ 225.00</u>	0.5
		£ 28,044.00	
	Theshold	<u>-£ 26,100.00</u>	0.5
	Excess	£ 1,944.00	
	1/2 Excess	£ 972.00	0.5
	PAA (born before 6/4/1938)	£ 10,660.00	
	1/2 Excess	<u>-£ 972.00</u>	0.5
	PAA (restricted)	<u>£ 9,688.00</u>	

Solution 1 (cont'd)

(iii)	Rental Income (20 x £375)	£ 7,500.00	
	Expenses:		
	Rates	£ 1,950.00	0.5
	Insurance	£ 1,700.00	0.5
	Wi-fi	£ 300.00	0.5
	L,H&P	<u>£ 1,100.00</u>	0.5
		£ 5,050.00	
		x 28/52	1
		-£ 2,719.23	
	Wear & Tear	£ 7,500.00	
		-£ 2,719.23	
		x 10%	0.5
		-£ 271.92	
	Advertising	<u>-£ 150</u>	0.5
		<u>£ 4,358.85</u>	
(iv)			
(a)	This is clearly in the nature of a bonus (excessive) & not a gift. As such, this would be deductible for Kevin but taxable on Colm as income.		1
(b)	Regardless of the business logo, this gift consists of food and so would not be a deductible expense for Kevin.		1
(c)	Assuming the calendars cost less than £50 each they would be a deductible expense as they do carry a prominent business logo and are NOT food, drink or tobacco.		1
(d)	The coats could be considered a small, local charitable donation which would attract favourable publicity & enhance the image of Kevin's business.		1
(v)	Class 1A NIC are payable on the cash equivalent of BIK provided by employers to employees. The employer is responsible for paying class 1A contributions by 19th July following the tax year.		2 x 2

Examiner's Comments on Question Two

This was an income tax computation with a mix of income from employment & self-employment and the usual arrangements for benefits in kind. With respect to income from self-employment, this question gave candidates the gross income from self-employment and successful candidates were expected to deduct the allowable expenditure from this gross income. Students should note that this is not the same thing as 'adding back' disallowable expenditure from net profit.

Solution 2

							Marks Allocated
W1	Income From Self-employment					£ 9,025.00	1
	Deductible Expenses			£ 1,500.00			1
	Fuel	£ 540.00	2/12	65%	£ 351.00		2
	H'hold	£ 3,692.00	2/12	15%	£ 92.30		3
	Professional Body				£ 450.00	<u>-£ 2,393.30</u>	1
						£ 6,631.70	
						10 Months	
W2	Income From Employment						
	Salary (per month)	£ 3,950.00					
	CCV	<u>-£ 243.00</u>		£ 3,707.00		£ 37,070.00	2
W3	Car						
	List Price	£ 26,000.00					
	Hands Free	<u>£ 350.00</u>		£ 26,350.00			
	Co2			25%		£ 5,489.58	4
W4	Fuel		21100			£ 4,395.83	3
W5	Loan						
	Average Method	£ 6,000.00					
		<u>£ 4,000.00</u>					
	Average	£ 5,000.00		(4% - 1.5%)	£ 104.17		
	Strict Method	£ 6,000.00		(4% - 1.5%)	£ 100.00		
		£ 4,000.00		(4% - 1.5%)	<u>£ 16.67</u>		
					£ 116.67	<u>£ 104.17</u>	6

Solution 2 (cont'd)

W6	Total Income From Employment			£ 47,059.58	
W7	Extended Basic Rate				
	Pension	£ 475.00		£ 7,125.00	
	Basic Rate Band			<u>£ 32,010.00</u>	
				£ 39,135.00	2
W8	Dividends				
	£ 1,755.00	x 100/90		£ 1,950.00	2
W9	Building Society Interest				
	£ 350.00	x 100/80		£ 437.50	2

Income Tax Computation Caoimhe 2013/14

Income From Self-Employment		£ 6,631.70			
Income From Employment		£ 47,059.58			
Building Society Interest			£ 437.50		
Dividends				£ 1,950.00	
PA		<u>-£ 9,440.00</u>			1
		£ 44,251.28	£ 437.50	£ 1,950.00	
Taxed as per:					
£ 39,135.00	20%	£ 7,827.00			2
<u>£ 5,116.28</u>	40%	£ 2,046.51			1
£ 44,251.28					
£ 437.50	40%	£ 175.00			1
£ 1,950.00	32.5%	<u>£ 633.75</u>			1
		£ 10,682.26			
less: tax credit	Divs	<u>-£ 195.00</u>			1
		£ 10,487.26			
less: Paid at Source	BSI	-£ 87.50			1
	PAYE	<u>-£ 5,614.00</u>			1
		£ 4,785.76			

*Divide
total by 2
to get
marks out
of 20*

Examiner's Comments on Question Three

This was another multiple-part short-form question concentrating, in this instance, on VAT. On the whole, with some notable exceptions, this was not well answered. Future candidates would do well to study/revise VAT in more detail and, in respect of VAT refunds and the penalty regime, to remember that it is not the same as income tax.

Solution 3

		Marks Allocated																																			
	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;">Net Price</td> <td style="width: 10%; text-align: right;">£</td> <td style="width: 60%;">100.00</td> </tr> <tr> <td>Discount (1)</td> <td style="text-align: right;">-£</td> <td style="text-align: right;"><u>10.00</u></td> </tr> <tr> <td>Net</td> <td style="text-align: right;">£</td> <td style="text-align: right;">90.00</td> </tr> <tr> <td>VAT</td> <td style="text-align: right;">£</td> <td style="text-align: right;"><u>18.00</u></td> </tr> <tr> <td>Total Price</td> <td style="text-align: right;">£</td> <td style="text-align: right;"><u>108.00</u></td> </tr> </table>	Net Price	£	100.00	Discount (1)	-£	<u>10.00</u>	Net	£	90.00	VAT	£	<u>18.00</u>	Total Price	£	<u>108.00</u>	2																				
Net Price	£	100.00																																			
Discount (1)	-£	<u>10.00</u>																																			
Net	£	90.00																																			
VAT	£	<u>18.00</u>																																			
Total Price	£	<u>108.00</u>																																			
(i) (b)	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;">Net Price</td> <td style="width: 10%; text-align: right;">£</td> <td style="width: 60%;">100.00</td> </tr> <tr> <td>Discount (1)</td> <td style="text-align: right;">-£</td> <td style="text-align: right;">10.00</td> </tr> <tr> <td>Discount (2)</td> <td style="text-align: right;">-£</td> <td style="text-align: right;"><u>5.00</u></td> </tr> <tr> <td></td> <td style="text-align: right;">£</td> <td style="text-align: right;">85.00</td> </tr> <tr> <td>VAT</td> <td style="text-align: right;">£</td> <td style="text-align: right;"><u>17.00</u></td> </tr> <tr> <td>Total</td> <td style="text-align: right;">£</td> <td style="text-align: right;"><u>102.00</u></td> </tr> </table>	Net Price	£	100.00	Discount (1)	-£	10.00	Discount (2)	-£	<u>5.00</u>		£	85.00	VAT	£	<u>17.00</u>	Total	£	<u>102.00</u>	2																	
Net Price	£	100.00																																			
Discount (1)	-£	10.00																																			
Discount (2)	-£	<u>5.00</u>																																			
	£	85.00																																			
VAT	£	<u>17.00</u>																																			
Total	£	<u>102.00</u>																																			
(ii)	<p>For the Dutch customer who does not supply his 'home country' VAT registration number, Pierre must sell the goods at net cost plus standard rate VAT.</p> <p>Since Pierre has given his Spanish supplier his UK VAT registration number he will receive the goods 'zero rated'. In his VAT return he will record this as both a standard rated input AND a standard rated output.</p>	2																																			
(iii)	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;">£22,396 / £28,381 x 100 =</td> <td style="width: 10%; text-align: right;">78.91%</td> <td style="width: 10%; text-align: center;">or</td> <td style="width: 10%; text-align: right;">79%</td> <td style="width: 30%;"></td> </tr> <tr> <td>Refundable Input VAT =</td> <td></td> <td></td> <td></td> <td style="text-align: right;">£ 2,463.00</td> </tr> <tr> <td style="padding-left: 20px;">£ 3,122.00</td> <td style="text-align: center;">x</td> <td style="text-align: right;">79%</td> <td></td> <td style="text-align: right;"><u>£ 2,466.38</u></td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td style="text-align: right;"><u>£ 4,929.38</u></td> </tr> <tr> <td>Non-refundable Input VAT =</td> <td></td> <td></td> <td></td> <td style="text-align: right;">£ 658.00</td> </tr> <tr> <td style="padding-left: 20px;">£ 3,122.00</td> <td style="text-align: center;">x</td> <td style="text-align: right;">21%</td> <td></td> <td style="text-align: right;"><u>£ 655.62</u></td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td style="text-align: right;"><u>£ 1,313.62</u></td> </tr> </table>	£22,396 / £28,381 x 100 =	78.91%	or	79%		Refundable Input VAT =				£ 2,463.00	£ 3,122.00	x	79%		<u>£ 2,466.38</u>					<u>£ 4,929.38</u>	Non-refundable Input VAT =				£ 658.00	£ 3,122.00	x	21%		<u>£ 655.62</u>					<u>£ 1,313.62</u>	2
£22,396 / £28,381 x 100 =	78.91%	or	79%																																		
Refundable Input VAT =				£ 2,463.00																																	
£ 3,122.00	x	79%		<u>£ 2,466.38</u>																																	
				<u>£ 4,929.38</u>																																	
Non-refundable Input VAT =				£ 658.00																																	
£ 3,122.00	x	21%		<u>£ 655.62</u>																																	
				<u>£ 1,313.62</u>																																	

The **total** input tax > £625 per month, and;
Total input tax less input tax directly attributable to taxable supplies
= £6,243 - £2,463 = £3,780 ie. > £625 per month.

In other words, the simplified de minimus tests are not satisfied and so the business was not 'de minimus' as of right. However, the above non-refundable input VAT is clearly < £625 per month and Evin may reclaim ALL of his input VAT = £6,243.

- (iv) As Seamus has retained the VAT records and on the assumption that any goods were acquired within **FOUR years of the commencement of trading (six months for services)** then he may reclaim relevant input VAT. It is a condition that such goods/services were **acquired for the business and that goods had not been consumed prior to the commencement of trading** and this should be verified before making any final recommendation. 3
- (v) Substantial traders make a **monthly direct debit (equal to 1/24th of their estimated annual VAT liability)** at the end of months 2 & 3 of each 'VAT quarter'. When the quarterly VAT return is submitted (within one month of the end of the quarter) they make a **balancing payment** in respect of that quarter's VAT liability. 3

Examiner's Comments on Question Four

This was a standard payroll calculation question with the usual array of deductions, codes and NIC issues examined. Invariably this was a well answered question.

Solution 4**(a)****Income Tax**

		<u>George</u>		<u>Gillian</u>		<u>David</u>	
Gross Cumulative to M4	£ 8,980.00		£ 13,952.00				
Pension	-£ 538.80		-£ 837.12				
Payroll Giving/CCV	-£ 80.00	£ 8,361.20	-£ 760.00	£ 12,354.88		£ -	
Salary M5	£ 2,208.00		£ 3,475.00		£ 2,655.00		
Pension	-£ 132.48		-£ 208.50				
Payroll Giving/CCV	-£ 20.00	<u>£ 2,055.52</u>	-£ 190.00	<u>£ 3,076.50</u>		<u>£ 2,655.00</u>	
		£ 10,416.72		£ 15,431.38		£ 2,655.00	
Free Pay/Additional Pay							
£9,249 x 5/12		-£ 3,853.75					
£309 x 5/12				£ 128.75			
£9,449 x 1/12						-£ 787.42	
Taxable Pay		<u>£ 6,562.97</u>		<u>£ 15,560.13</u>		<u>£ 1,867.58</u>	8.5
Taxed as Per							
£ 6,562.97 x 20%		<u>£ 1,312.59</u>					
£32,010 x 5/12 x 20%				£ 2,667.50			
2222.63 x 40%				<u>£ 889.05</u>			
1867.583333 x 20%						<u>£ 373.52</u>	
		£ 1,312.59		£ 3,556.55		£ 373.52	
Tax to M4		-£ 1,007.64		-£ 2,848.80		£ -	
Tax deductible M5		<u>£ 304.95</u>		<u>£ 707.75</u>		<u>£ 373.52</u>	3.5

Man
Allocated

Solution 4 (cont'd)**National Insurance****Primary**

£(2,208-646) x 12%	£	187.44		
£(3,475-190-646) x 12%			£	316.68
£(2,655-646) x 12%				£ 241.08

Secondary

£(2,208-641) x 13.8%	<u>£</u>	<u>216.25</u>		
£(3,475-190-641) x 13.8%			<u>£</u>	<u>364.87</u>
£(2,655-641) x 12%				<u>£ 277.93</u>
	<u>£</u>	<u>403.69</u>	<u>£</u>	<u>681.55</u>
			<u>£</u>	<u>519.01</u>

Marks
Allocated

3

(b)

Gillian could have been issued with a reduced tax code due to a number of different reasons. For example, some or all of the following: receiving other income not taxed at source or enjoying benefits-in-kind, or having under-paid tax in previous years.

Any of the above would result in Gillian's tax code (free pay) being reduced so as to increase her taxable income in the current period by an appropriate amount so as to collect the appropriate amount of tax due. These items may reduce Gillian's tax to code to zero or beyond so that she has a negative (minus) tax code. In this latter case, the negative tax code is designated a prefix (as opposed to a suffix) and the letter (K) added in front of her tax code.

5

Examiner's Comments on Question Five

This was basis periods question with all the various scenarios examined, i.e: commencement of trade with (i) annual accounting periods from the outset (ii) the initial accounting period being less than 12 months long and (iii) the initial accounting period being in excess of 12 months long. In the main, this question was well answered.

Solution 5					Marks Allocated	
	<u>YOA</u>	<u>Period Assessed</u>	<u>Calculation</u>	<u>Assessable Profits</u>		
(i) Joey	2011/12	1/4/2012 - 5/4/2012	5/426 x £54,810	£ 643.31	16	
	2012/13	6/4/2012 - 5/4/2013	12/14 x £54,810	£ 46,980.00		
	2013/14	1/6/2012-31/5/2013	12/14 x £54,810	£ 46,980.00		
	2014/15	Y/E 31/5/2014		£ 47,928.00		
	<u>Overlap Periods:</u>					
		1/6/2012 - 5/4/2013	10/14 x £54,810	£ 39,150.00		
(ii) Rebecca	2012/13	1/2/2013 - 5/4/2013	2/6 x £15,738	£ 5,246.00		18
	2013/14	1/2/2013 - 31/7/2013		£ 15,738.00		
		1/8/2013 - 31/1/2014	6/12 x £33,552	<u>£ 16,776.00</u>		
				£ 32,514.00		
	2014/15	Y/E 31/7/2014		£ 33,552.00		
	<u>Overlap Periods:</u>					
		1/2/2013 - 5/4/2013	2/6 x £15,738	£ 5,246.00		
		1/8/2013 - 31/1/2014	6/12 x £33,552	<u>£ 16,776.00</u>		
				£ 22,022.00		
(iii) Steve	2012/13	1/7/2012 - 5/4/2013	9/12 x £63,756	£ 47,817.00		
	2013/14	Y/E 30/6/2013		£ 63,756.00		
	2014/15	Y/E 30/6/2014		£ 67,068.00		
		<u>Overlap Periods:</u>				
		1/7/2012 - 5/4/2013	9/12 x £63,756	£ 47,817.00		
(iv) Lucy	2012/13	1/8/2012 - 5/4/2013	8/13 x £10,179	£ 6,264.00	13	
	2013/14	1/9/2012 - 31/8/2013	12/13 x £10,179	£ 9,396.00		
	2014/15	Y/E 31/8/2014		£ 9,576.00		
		<u>Overlap Periods:</u>				
		1/9/2012 - 5/4/2013	7/13 x £10,179	£ 5,481.00		

13
Layout 1
Divide
total by 3
to get
marks out
of 20

Examiner's Comments on Question Six

Question 6 was a largely narrative 'tax general knowledge' question at this sitting but framed in the 'short-form' style question. With some noteworthy exceptions, this question was generally not well answered.

- i. Income tax is assessed directly on the earned and savings/investment income of individuals in employment, self-employment or those economically inactive. As such, income tax is considered a direct tax. **2 Marks**

Value added tax (VAT) is not levied directly on an individuals' earnings but, rather, on the value of certain goods and services which they consume (buy). As such VAT would be considered an indirect tax. **2 Marks**

- ii. If a taxpayer wishes to appoint an agent to act on their behalf with respect to their tax affairs, the agent will require the taxpayer to formally give their consent & authorisation for them to do so. Form 64-8 covers this 'agent authorisation' for the taxpayer and, once completed, it must be returned to HMRC. **3 Marks**

- iii. Taxpayers who are in receipt of taxable income not otherwise taxed at source and who have not received a tax return have an obligation to notify HMRC that they are in receipt of such income within six months of the end of the tax year (ie. by 5th October 2014 in respect of tax year 2013/14. **1 Mark**

Notification is to HMRC by submission of form SA1. **1 Mark**

Failure to submit form SA1 where it is necessary to do so may result in penalties. The penalties are tax based (ie. the penalty levied is as a percentage of the tax which would be due) increasing in severity if the taxpayer has made a deliberate attempt to conceal the receipt of income from HMRC. Specifically, the penalties are:

Reason for Failure to Notify	% of Tax Due as Penalty
Deliberate and concealed.....	100
Deliberate but not concealed.....	70
Otherwise.....	30

- iv. Most commonly, an individual must submit a self-assessment tax return when they are self-employed or they are the director of a company. Subsequently, if your friend's new position is as a company director, they would be obligated to submit a tax return. If they are, otherwise, in receipt of taxable income which is not taxed directly or at source, they would also be under an obligation to submit a tax return. This latter case would cover situations where an individual was in receipt of untaxed investment income or capital gains for example. **2 Marks**

Other circumstances dictating the submission of a tax return relate to the taxpayers desire to submit expense claims at a certain level (greater than £2,500) and the level of an individuals' income in various circumstances/from various sources. **Specifically relevant in this case is the requirement for individuals with an annual income in excess of £100,000 to submit a tax return.** Since your friend would definitely appear to be in this latter category it appears that they would be under an obligation to submit a tax return.

- v. Tax returns made in 'paper form' must be submitted to HMRC by 31st October following the end of the relevant tax year or by three months after HMRC issued the taxpayer with a notice to file, if later. Electronically submitted returns have a deadline of 31st January following the end of the relevant tax year (filing by internet – FBI) or three months after a 'notice to file' was submitted by HMRC, if later. If the taxpayer has a tax liability less than £3,000 and they wish to have their liability collected through a change to their tax code, they must submit by 30th December following the end of the relevant tax year. **2 Marks**

If the tax return is submitted late, they incur an immediate £100 penalty, even if they have a NIL tax liability. **1 Mark**

Should their return be > 3 months late, an additional penalty of £10 per day is incurred up to a maximum of £900, again, this applies even if they have a tax liability of £NIL

Should the return be > 6 months late, an additional penalty is due which is the higher of £300 or 5% of the tax due, again, this applies even if they have a tax liability of £NIL. **1 Mark**

Should the return be > 12 months late, an additional penalty which is the higher of £300 or 5% of the tax due is levied although in very serious cases a penalty of 100% of the due may be levied instead. **1 Mark**

Note that the above penalties are separate from any interest or surcharges due on unpaid tax.

