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# Advanced Taxation

## Northern Ireland

2<sup>nd</sup> Year Examination

**August 2013**

**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.

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## **Accounting Technicians Ireland**

### **2<sup>nd</sup> Year Examination: Autumn 2013 Paper**

### **Paper : ADVANCED TAXATION(Northern Ireland)**

**Thursday 22<sup>nd</sup> August 2013 – 2.30 p.m. to 5.30 p.m.**

#### **INSTRUCTIONS TO CANDIDATES**

#### **PLEASE READ CAREFULLY**

**For candidates answering in accordance with the law and practice of Northern Ireland.**

**Candidates should answer the paper in accordance with the appropriate provisions up to and including the Finance Act 2012. The provisions of the Finance Act 2013 should be ignored.**

**Allowances and rates of taxation, to be used by candidates, are set out in a separate booklet supplied with the examination paper.**

**Answer ALL THREE QUESTIONS in Section A, and ANY TWO of the FOUR 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 included with this paper.**

- **Tax Reference Material (NI)**

## SECTION A

Answer QUESTION 1 and QUESTION 2 and QUESTION 3 (Compulsory) in this Section

## QUESTION 1 (Compulsory)

- a) A number of special schemes have been developed to simplify the VAT system. One such scheme is the Cash Accounting Scheme.

**Required:**

Explain what is meant by the cash accounting scheme and outline:

- i) How the system works and
- ii) The conditions that must be met for a trader to apply to join such a scheme.

**5 Marks**

- b) Matt operates a medium sized building firm carrying out repairs for both commercial and domestic clients. Turnover in the year is approximately £1,200,000 pa and Matt has been registered in the cash accounting scheme. Transactions in the Q/E 31 March 2013 (including VAT where appropriate) have been as follows:

		£
<u>Sales:</u>	Invoiced in the quarter (1)	128,000
	Cash receipts from customers (2)	139,200
	Cash receipts from sale of equipment	28,750
<u>Purchases:</u>	Invoices from suppliers	90,450
	Payment made to suppliers	87,400
<u>Other costs:</u>	Wages	42,360
<u>Paid in the</u>	Motor expenses (3)	5,690
<u>Quarter</u>	Other standard rate expenses (4)	7,254
	Bad debts written off (5)	6,980

Notes:

- (1) Invoices issued in the quarter include £12,500 for work completed for Matt's brother Greg. The full value of this work completed is estimated to be £15,625 although no monies have yet been received from Greg.
- (2) Cash receipts in the quarter includes £4,800 received from a builder who has withheld tax at 20% on payments made to Matt. The tax withheld was £1,200.
- (3) Motor expenses paid in the quarter include:

	£
Payment for 2 <sup>nd</sup> hand small truck	2,000
Payment for petrol for Matt's own car	530
Payment for Matt's work van	3,160

- (4) Inspection of these invoices paid in the quarter show that they include an invoice for £54 from a local supplier that does not contain a VAT number.
- (5) Amounts written off in this quarter relate to debts outstanding for more than six months. These debts are now written off in the accounts for Y/E 31 March 2013.

**Required:**

- i) Calculate the VAT liability for Matt for Q/E 31 March 2013.
- ii) State the due date of payment of any outstanding liability.

**13 Marks**

**2 Marks**

**Total 20 Marks**

**QUESTION 2 (Compulsory)**

Heather and Tom are a couple who married some years ago. Tom is employed as a sales representative for a company Markit Ltd. that operates throughout UK & Ireland.

Tom as regional manager earns an annual salary of £65,000 pa from which £15,200 PAYE has been deducted this year.

He also receives a very generous benefits package that includes:-

- (1) A BMW diesel car that is provided for both business and private use. The car's list price is £23,000 and has CO<sub>2</sub> emissions of 165g/km. Markit do not provide any fuel for the vehicle but have this year spent £800 on new tyres and £465 on servicing costs. Should Tom require to use his car for business use he receives an allowance of 45p per mile. During 2012/13 Tom used the vehicle for 13,800 business miles.
- (2) As he is on the road a lot the company provide Tom with a mobile phone. This is provided on a contract in the company's name at a cost of £35pm, which covers both business and personal calls.
- (3) Tom has frequently to entertain business clients at home and because of this on the 6<sup>th</sup> September this year Markit Ltd provided him with some quality carpets and furnishings at a cost of £6,000. Tom has agreed to contribute £30pm towards the use of these even though they are still owned by the company. In March 2013 the company paid £120 for having the carpets cleaned throughout the house.
- (4) Tom makes his own Personal Pension contributions each year to an approved scheme. Payments this year have been made amounting to £1,000(net) pm. In December 2012 Markit Ltd made a contribution to Tom's personal pension of £5,000. This was made in lieu of a Christmas bonus.

Tom's other income in the year comes from his personal investments as follows:-

- Bank Deposit interest £1,200,
- Individual Savings Account (ISA) interest £1,620.

Heather, since her retirement in 2010, has started to spend a lot of time in the couple's holiday home in Portugal. Indeed, it would be the couple's intention to move there permanently when Tom himself finishes working.

Heather's only income in this tax year is from investments held in her own name and has received the following:-

- Bank Deposit interest £7,400
- Income from dividends in the UK companies £4,680

**Required**

- i) Calculate any outstanding Income Tax Liability for 2012/13 for
  - a. Tom
  - b. Heather

**16 Marks**

- ii) Outline to Heather how it will be determined if she is Resident in the UK in a tax year and the implications of such determination on the UK tax she will pay for that year.

(Ignore whether Heather may be considered Ordinarily resident and/or Domiciled in the year).

**4 Marks****Total 20 Marks**

**QUESTION 3** (*Compulsory*)

Excelsior Limited has experienced some erratic trading results in the last number of years with recent results as follows:-

	<b>Year Ended 31-12-2010</b>	<b>Year Ended 31-12-2011</b>	<b>Year Ended 31-12-2012</b>
	<b>£</b>	<b>£</b>	<b>£</b>
Trade Profit/ (Loss)	42,000	(40,000)	60,000
Rental Income	12,000	14,000	14,000
Chargeable Gains	-	4,500	-
Trade Charges	1,000	1,000	1,000
Qualifying Charitable Donations	500	500	500

Trade Losses brought forward amount to £32,000 at 1-1-2010.

**Required:**

Show how the losses incurred in trading can be relieved and clearly identify the loss memo and any balance of unrelieved losses or charges.

**Total 20 Marks**

**SECTION B****Answer ANY TWO of the FOUR questions in Section B****QUESTION 4**

- a) Cian has been employed by Clarke Ltd since 13 November 2006 earning an annual salary of £40,000. Since that time he has been living in non job-related accommodation provided by Clarke Ltd. They had purchased the property in 2004 for £280,000 and spent £25,000 on renovations and furnished the property at a cost of £12,200 before Cian moved in. The gross rateable value of the property is £4,200 and Cian pays rent to Clarke Ltd of £300 pm.

Other expenses paid directly by Clarke Ltd in respect of the property in the year include:

	£
- Structural repairs	1,750
- Electricity	460
- Cleaning costs	920
- Decoration	220

**Required:**

Calculate the taxable benefit assessable on Cian in respect of the accommodation in 2012/13.

**10 Marks**

- b) Outline the conditions that must be met for a company car to be treated as a pool car and the tax consequences to the employee of driving such a car.
- c) In April 2012 on the occasion of her marriage Clare received a loan from her employer to help cover the costs of her wedding:

**4 Marks**

Outline to Clare the tax implications of such a loan if:

- (i) The loan amounted to £10,000 and interest to be charged by the employer was at 2%,

Or

- (ii) The loan was given interest free and amounted to £4,800,

Or

- (iii) Clare's employers decided in December 2012 to waive any repayments of the £10,000 loan in recognition of her performance in the year and given in lieu of a Christmas bonus.

**6 Marks****Total 20 Marks**

**QUESTION 5**

Following his recent marriage Liam has decided to sell a number of his assets to release funds to invest in a new property. Asset disposals this year have included:-

- 1 May 2012      Liam sold a site with full planning permission for £72,000. Expenses incurred on the sale were £2,000. The site had been acquired in June 1979 for £12,000 but the Market Value in March 1982 was £26,000. In June 1996 Liam had spent £15,000 on fencing and draining the property which increased its eventual sale price.
- 2 June 2012      Liam sold his prize train collection to his brother Frank for £3,000. It is estimated that the market value of the collection was £6,500. Liam had bought the collection at an antiques and collectibles auction for £4,000 some years earlier.
- 14 July 2012      Sold a table and set of antique chairs for £5,800. These he had acquired in June 2000 for £3,600.
- 6 Oct 2012      Sold 4000 shares for £16,000. These are part of his shareholding he held in Newbridge Ltd and had been acquired as follows:-

		<b>Cost £</b>
1-July-1987	1000 shares	2,000
1-April-1999	2500 shares	7,500
6-Oct-2012	400 shares	1,750
2-Nov-2012	500 shares	1,800

**Required:**

Calculate the Capital Gains Tax Liability for Liam for 2012/13 assuming he had no other capital transactions in the year and other taxable income was £27,000.

**Total 20 Marks**



**QUESTION 6**

Ed and his wife Martha have decided that after some years of trying to make new business ventures work they would sell up and take life a little easier.

Ed had commenced his business in September 2008 when he acquired a Freehold shop for £85,000 and a warehouse facility for £125,000. He also acquired land nearby for £25,000 which he bought as an investment at the time.

In December 2012 Ed sold the whole of the business as a going concern together with the plot of land nearby. Disposal proceeds of £317,000 were assigned as follows:-

	£
Freehold Shop	95,000
Warehouse Facility	155,000
Land	45,000
Goodwill	<u>22,000</u>
	<u>317,000</u>

Ed had not undertaken any other capital transactions in the year and his taxable income for the year was £29,000.

Martha, in her efforts to take things a little easier, has decided this year to sub lease her premises to Millie for 5 years and Millie has paid her £5,000 for this. The original lease had been granted to Martha on the 1<sup>st</sup> July 2007 for 25 years upon receipt of a premium from her of £20,000.

**Required:**

- i) Calculate the CGT payable by Ed for 2012/13 assuming that he makes any beneficial claims available in the year. **12 Marks**
- ii) State the date by which any claim must be made by Ed. **2 Marks**
- iii) Calculate for Martha how much will be taxable on her this year as income in respect of the sub- lease granted. **6 Marks**

**Total 20 Marks**

**QUESTION 7**

*The following multiple choice question consists of TEN parts, each of which is followed by FOUR possible answers. There is ONLY ONE right answer in each part.*

**Requirement**

Indicate the right answer to each of the following TEN parts.

**Total 20 Marks**

**N. B. Each part carries 2 marks.**

*Candidates should answer this question by ticking the appropriate boxes on the special answer sheet which is contained within the answer booklet.*

1. Grencore Ltd is a large company for Corporation tax purposes. Quarterly instalments of corporation tax for the company's 12 month accounting period ended 30 June 2012 are due on
  - (a) 14 January 2013, 14 April 2013, 14 July 2013, 14 October 2013.
  - (b) 14 April 2012, 14 July 2012, 14 October 2012, 14 January 2013.
  - (c) 14 February 2012, 14 May 2012, 14 August 2012, 14 November 2012.
  - (d) 14 January 2012, 14 April 2012, 14 July 2012, 14 October 2012 .
  
2. A limited company has the following tax adjusted results for years 31 December 2011 and 2012

	<b>2011</b>	<b>2012</b>
	<b>£</b>	<b>£</b>
Trading income/(loss)	50,000	(46,000)
Investment income	15,000	22,000
Chargeable gains		14,000

The maximum amount of the loss that can be set against the taxable total profits for 2011 will be?

- (a) £10,000
- (b) £0
- (c) £24,000
- (d) £46,000

**The following information is relevant to both Questions 3 and 4 below:**

A VAT registered sub-contractor has agreed to supply and tile the floor of a building for £950 plus VAT as follows:

	<b>£</b>
Materials (incl VAT £80)	480
Labour	<u>470</u>
	950
VAT	<u>190</u>
	<u><u>1,140</u></u>

The contractor has verified the sub-contractor and has been advised to deduct 20% from payments made to him.

3. Payment that should be made to the sub-contractor is:

- (a) £912
- (b) £950
- (c) £1,030
- (d) £1,140

4. If the sub-contractor was not VAT registered the payment due would be:

- (a) £1,046
- (b) £950
- (c) £1,140
- (d) £856

5. Steve was provided with a second hand car on 6 October 2012. It cost the company £8,000 but the list price of the car when it was bought new was £18,000. The car has CO<sub>2</sub> emissions of 154g/km and has a diesel engine. The company pays for all running costs of the vehicle but Steve provides his own fuel. Steve's assessable benefit in kind in respect of the vehicle 2012/13 will be:

- (a) £960
- (b) £840
- (c) £2,160
- (d) £1,890

6. Norah aged 82 years old had income of £25,000 and received dividends of £1,215. She paid £400 (net) to charities under the Gift Aid scheme. Her total Income Tax Liability in the year (i.e. before deduction of tax paid) will be:

- (a) £3,017
- (b) £3,048
- (c) £3,003
- (d) £3,183

7. Full Board Ltd a trading company with no associates has the following results for the 12 month chargeable accounting period to 31/12/12:

	£
Trade Profits	1,230,000
Chargeable gains	45,000
Gift Aid Payments	15,000
Dividends Received	
From other UK companies	180,000

Corporation Tax payable for Financial Year 2012 will be:

- (a) £308,312
- (b) £307,700
- (c) £226,541
- (d) £226,800

8. Merco Ltd has one associated company for tax purposes and has the following results for the year ended 31 March 2013.

PCTCT	£625,000
Net Dividends Received	£ 49,500

Corporation Tax payable for the year will be:

- (a) £149,357
- (b) £141,250
- (c) £150,000
- (d) £155,000

9. Michael is VAT registered and the following information relates to transactions in Q/E 30/09/2012:

VAT Exclusive Supplies	£
Taxable	68,000
Exempt	30,000

Input VAT Paid:-

Attributable to taxable supplies	4,600
Attributable to exempt supplies	1,750
Non-attributable input VAT	2,000

Input VAT that Michael can recover in the quarter amounts to:-

- (a) £3,240
- (b) £7,000
- (c) £5,980
- (d) £7,620

10. A customer purchases a standard rate item for £3,250 plus VAT and is offered a discount of 2% if payment is made within 30 days. If the customer does not pay within the 30 days VAT charged will be:

- (a) £650.00
- (b) £637.00
- (c) £568.75
- (d) £557.38

## 2<sup>nd</sup> Year Examination: August 2013

### Advanced 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:

- (i) Cash Accounting Scheme allows traders to account for VAT when an invoice is paid and the cash is received. This differs from the standard scheme in which traders pay VAT to HMRC on the basis of the date of issue of an invoice.

The treatment of VAT on purchases also differs where traders using the cash accounting scheme can only reclaim VAT on purchases when they have paid their suppliers.

The main advantages of the scheme are automatic bad debt relief and the deferral of the time for payment of VAT where extended credit is provided

Marks  
Allocated

2

- (ii) The conditions that must be met for a trader to join such a scheme are:

1. Taxable supplies are not expected to exceed £1,350,000 (net) over the next year.
2. VAT returns and payments must be up to date and the trader must not have been convicted of a VAT offence in the last 12 months.
3. The trader must withdraw from the scheme if the value of taxable supplies (exc VAT) exceeds £1,600,000. This will not include exceeding this limit due to "one off" increase in sales due to for example sale of capital asset.

3

**Matt  
VAT Liability for  
Q/E 31 March 2013**

b)

Output Tax

	£	£	Marks Allocated
Cash receipts from customers			
139,200 x 1/6	23,200		1
Tax withheld 1,200 x 1/6	200		1
Cash receipts from sale of equipment 28,750 x 1/6	<u>4,792</u>		2
		28,192	

Input Tax

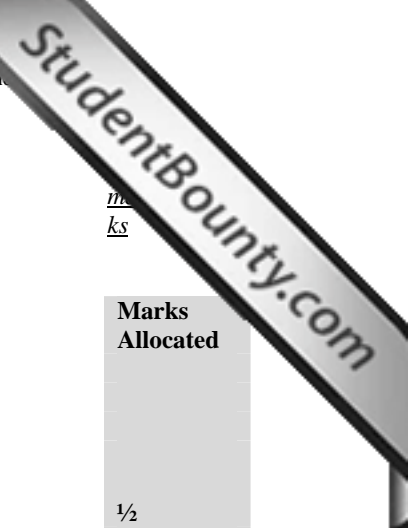
Payment made to suppliers			
87,400 x 1/6	14,567		1
Wages	-		1
<u>Motor Expenses</u>			
2 <sup>nd</sup> Hand truck 2,000 x 1/6	333		1
Matt's own car	-		1
Matt's work van 3,160 x 1/6	527		1
Other standard Rate expenses			
(7,254 – 54 x 1/6)	1,200		2
Bad Debts – (not recoverable on cash receipts basis)	-		2
		<u>(16,627)</u>	
VAT due		<u>11,565</u>	

The due date for payment for the 3 month period (assuming compulsory on-line submission) will be to 1 month and 7 days after the VAT period i.e. 7 May 2013

2

**Total: 20  
Marks**





		Heather			Marks Allocated
		I T Computation 2012/13			
	Non Savings	Savings	Dividend	Total	
Bank Deposit Interest (7,400/0.80)		9,250		9,250	½
Dividend Income(4,680/0.90)		=	<u>5,200</u>	<u>5,200-</u>	½
		9,250	5,200	14,450	
Less PA		<u>(8,105)</u>		<u>(8,105)</u>	<u>1</u>
Taxable Income		<u>1,145</u>	<u>5,200</u>	<u>6,345</u>	
	6,345	* 0.10	634.50		2
	Less Tax credit				
	Dividends		(520.00)		½
	Bank Interest		<u>(1850.00)</u>		½
	Repayment Due		<u>(1735.50)</u>		

- (b) An individual is Resident in the UKI for tax purposes in a tax year if in that year:  
 They are present for 183 days or more  
 They visit the UK for at least 91 days in the tax year.  
 A visiting individual will only become resident after their 4<sup>th</sup> consecutive year of visiting.

If an individual is deemed resident in the UK for the tax year they will be liable to UK income tax on all UK and non UK income

1  
1  
1

1

**Total: 20  
marks**







**Solution 4:**

Benefits in Kind

**Cian  
Taxable Benefit  
2012/13**

a)

Provision of non job- related Accommodation

	£	£	Marks Allocated
(i) Annual Value		4,200	2
(ii) Provision of expensive accommodation (280,000 + 25,000 – 75,000) x 0.04		9,200	2
(iii) Furniture Provided Annual Value 12,200 0.20	2,440		2
(iv) Ancilliary Benefits; ( Exc Structural Repairs	<u>1,600</u> <u>4,040</u>		2
		<u>4,040</u>	
		17,440	
Less Rent Paid by Cain (12x £300)		<u>(3,600)</u>	<u>2</u>
Benefit assessable		<u>13,840</u>	

b) The conditions that need to be met in order that the car is treated as a pool car are:

- (i) the car is usually kept at business premises and should not be kept overnight by an employee unless travelling on business premises. 1
- (ii) the car is made available to more than one employee and is not normally used by one employee exclusively 1
- (iii) any private use of the car is merely incidental to its business use. 1

Pool cars are not subject to an assessable benefit. 1

c) Clare: Receipt of Loan on the occasion of her wedding

General Principle:

If an employer make a loan to a P11D employee a taxable benefit will arise if the loan is a low interest loan i.e. the interest rate charged by the employer is less than the official rate of interest (4%).

These are known as “cheap loans” and the employee will be taxed on the following

- (i) £10,000 Loan @ 2% £  
 $10,000 \times 4\% - 2\% =$  200 2
- (ii) Interest Free Loan £4,800  
 Loans not exceeding £5,000 in the tax year do not result in a taxable benefit 2
- (iii) £10,000 Loan waived in lieu of Christmas bonus  
 Any loan written off (waived) other than on death will give rise to a taxable benefit.  
 Clare here will be taxed on the full amount of the loan written off £10,000. 2

**Total: 20**  
**Marks**

**Solution 5:**

Liam

Capital Disposals in the year:-

	£	Gain £	Marks Allocated
<u>1 May 2012 Sale of Site</u>			
Proceeds	72,000		½
Less Cost of sale	<u>(2,000)</u>		1
	70,000		
Less Cost (MV 82)	(26,000)		1
Less Enhancement	<u>(15,000)</u>		1
		29,000	
<u>2 June 2012 Train Collection</u>			
Proceeds (Deemed MV)	6,500		1
Less Cost	<u>(4,000)</u>		1
	2,500		
Limited to 5/3 * (6,500-6,000)		833	2
<u>14 July 2012 Table and Chairs</u>			
Chattel bought and sold < £6,000		Exempt	2
<u>Sale of shares</u>			
4,000 shares matched as follows:-			
1) Acquisitions on the same day			
Proceeds 16,000 * 400/4,000	1,600		1
Less Cost	<u>(1,750)</u>		1
		(150)	
11) Acquisitions in the next 30 days			
Proceeds 16,000 * 500/4,000	2,000		1
Less Cost	<u>(1,800)</u>	200	1
111) Shares in the share pool			
Proceeds 16,000 * 3,100/4,000	12,400		1
Less Cost (see below)	<u>(8,414)</u>	<u>3,986</u>	1
Total Gains in the year		33,869	
Less Annual Exemption		<u>(10,600)</u>	½
Net gain in Year		<u>23,269</u>	
Other Taxable Income (net of Allowances) (27,000-8,105)= 18,895			1
C Gains <u>15,475</u>	Charged @ 18%= 2785.50		1
<u>34,370</u>			
C Gains (HR) 7,794	Charged @ 28% = <u>2182.32</u>		2
	<u>4967.82</u>		
			<b><u>Total: 20 marks</u></b>

**Solution 5** (Cont'd)

Share Pool	Shares	Cost
1-7-87	1,000	2,000
11-4-89	<u>2,500</u>	<u>7,500</u>
	3,500	9,500
6-10-2012		
3100/3500*9500=8414	<u>(3,100)</u>	<u>(8,414)</u>
	<u>400</u>	<u>1,086</u>

**Solution 6:**

Ed

As this is the disposal of the whole of a business carried on by an individual Entrepreneur's Relief is available meaning that the relevant assets will be taxed at 10% rather than at 18% or 28%.

## Gains Qualifying for Entrepreneur's Relief

	£	Gain £	Marks Allocated
<u>Freehold Shop</u>			
Proceeds	95,000		1
Less Cost	<u>(85,000)</u>		1
		10,000	
<u>Warehouse Facility</u>			
Proceeds	155,000		1
Less Cost	<u>(125,000)</u>		1
		30,000	
<u>Goodwill</u>		<u>22,000</u>	1
Taxable Gains		<u>62,000</u>	
CGT Payable	62,000 * 10%	6,200	2
Gains not Qualifying for Entrepreneur's Relief			
<u>Land</u>			
Proceeds	45,000		1
Less Cost	<u>(25,000)</u>		1
		20,000	
Less Annual Exemption (best used against higher gain )	<u>(10,600)</u>		1
	<u>9,400</u>		
CGT Payable @ 18%		<u>1,692</u>	2
Total CGT Due		<u>7,892</u>	

(b) Claim for Entrepreneur's Relief must be made by 31 January 2015

2

Advanced Taxation NI

August 2013

2<sup>nd</sup>



Martha

£

Premium received from Millie  
Less 5,000 \* 2% \* (5-1)

5,000  
(400)

4,600

3

Less Relief from premium paid for head lease (w1)  
10,400 \* 5/25

(2,080)  
2,520

3

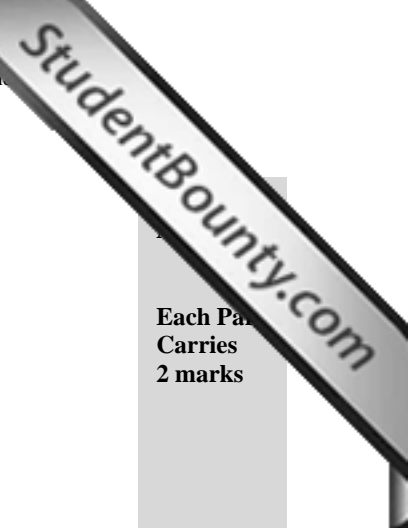
W1

Premium Received  
Less 20,000 \* 2% \* (25-1)

20,000  
(9,600)

10,400

**Total: 20**  
**Marks**



**Solution 7:**

Multiple Choice

1. D

2. A (offset against CY Income first)

3. C Invoice (Net) 950  
Less Materials (Net) (400)  
 Tax withheld 550 x 20% = 110

Gross 1,140 – 110 = 1,030

4. D Invoice – No VAT chargeable 950  
Less materials (480)  
 Tax withheld 470 x 20% = 94

Gross 950 – 94 = 856

5. C 18,000 x (21% + 3%) = 4,320 x <sup>6</sup>/<sub>12</sub> = 2,160

6. B Income 25,000  
 Div (gross) PAA 10,660

<sup>1215</sup> / <sub>0.90</sub>	<u>1,350</u>	Less ½ (26350 - <sup>400</sup> / <sub>0.80</sub> 25400)	
	26,350		
	<u>(10,435)</u>		<u>(225)</u>
	<u>15,915</u>		<u>10,435</u>

14,565 x 20% = 2,913.00

<u>1,350</u> x 10%	<u>135.00</u>
15,915	<u>3,048.00</u>

7. A

8. A

9. C Input VAT redeemable £  
 -on taxable supplies 4,600  
 -non attributable  
68000 = 0.69\*x 2,000 1,380  
 98000 5,980  
 -non claimable

10. B 3,250 x 0.98 x 0.20 = 637.00

Each Part  
 Carries  
 2 marks

**Total: 20  
 marks**

## 2<sup>nd</sup> Year Examination: August 2013

### Advanced Taxation NI

### Examiner's Report

Statistical Analysis – By Question							
Question No.	1	2	3	4	5	6	7
Average Mark (%)	29%	54%	48%	49%	50.5%	44%	34%
Nos. Attempting	43	43	43	15	36	8	26

Statistical Analysis - Overall	
Pass Rate	51%
Average Mark	44%
Range of Marks	Nos. of Students
0-39	18
40-49	3
50-59	16
60-69	5
70 and over	1
Total No. Sitting Exam	43
Total Absent	8
Total Approved Absent	0
Total No. Applied for Exam	51

#### General Comment:

The overall performance at this sitting of Advanced Taxation (NI) was very poor, with the Pass Rate dipping to 51% of all candidates presenting for examination and an average mark attained of 44%.

#### Question 1

This was a VAT question split into 3 parts. The theory section on this question was on Cash Accounting option for VAT registered traders and required candidates to outline what the system was and then the conditions that must be met in order to be eligible to apply for the scheme. To improve performance on this type of question candidates need to know the rules and be able to outline them succinctly. In the computational part of the question candidates need to pay particular attention to the following:

- Whether figures presented to them are VAT inclusive or exclusive
- Irrelevance of Bad debts where a trader is registered for Cash Accounting
- Payment dates for VAT now amended since the introduction of electronic returns.

**Question 2**

This was a standard form Income Tax computation for a Husband and Wife to include the calculation of a generous Benefit in Kind package for husband and a wife whose only income was income from investments. Amazingly we still had the one candidate who prepared a Joint computation for Husband and Wife and/or an alarming number still awarded MCA to them! To improve performance on this type of question candidates must know the rules on BIK and know how to value and apply them. Of note were the sizeable number who wrongly included the cost of new tyres and servicing of company vehicle as a separate and distinct taxable benefit. Relief for Personal Pension payments was generally handled well by extension of the basic rate band as was calculation of tax for both husband and wife at the different rate %.

Candidates need to make themselves aware of the rules for determining tax residency and the implications of such determination. Most did not simply know.

**Question 3**

Once again this was a question on Corporation Tax losses and how to deal with them over a 3 year period. Candidates need to concentrate on developing a simple layout to deal with movement of losses both B/F and C/B over the 3 years. Candidates who performed well on this question often started by outlining the rules and then applying them in manner required. A lot of marks can be gained in this type of question by simply knowing that C/F losses offset ONLY against future income from the same trade Offset against Total income of same year or C/B 12m. In a very large number of cases candidates showed that the company had both Trade and Non trade charges but actually added them as additional taxable income!

**Question 4**

This was not a reasonably popular optional question with 35% of candidates electing to answer. The question was on valuation of Benefits in Kind including provision of non job related accommodation, pool cars and beneficial loans. Some lost marks simply because they did not know or guessed the rules on the conditions to be met to qualify as a pool car or did not recognise that loans < £5,000 were exempt. At this level candidates must make themselves aware of the 4 distinct elements to a valuation of non job related accommodation and be able to apply. Few also realised that there was a limit on the valuation of ancillary benefits.

**Question 5**

This was a popular optional question on the paper and candidates generally scored well on this question. It was pleasing to see so many answered the first 3 parts to the question well. Where marks were lost it was because candidates did not attempt calculation of the gain on share disposal or in the calculation of the CGT liability, ignored that he had £27,000 of other income and did not tax CGT at 18% and 28% correctly.

**Question 6**

This was not a popular optional question answered only by 2% of the candidates with part (i) answered well by most. Candidates at this level must be able to state the dates by which claims, returns etc must be made as simple marks continue to be lost by candidates not knowing them. In this question a lot of marks were lost by candidates simply not knowing how to calculate income in respect of the sub lease.

**Question 7**

As previously reported multiple choice is often not a popular question but candidates who know the syllabus well can often score very well on these questions and often can answer the question quickly by identifying the correct answer. It is always there!