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# Advanced Taxation

## Northern Ireland

2<sup>nd</sup> Year Examination

August 2012

Exam Paper, Solutions & Examiner's Report



### NOTES TO USERS ABOUT THESE SOLUTIONS

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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.

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## Accounting Technicians Ireland

### 2<sup>nd</sup> Year Examination: Autumn 2012 Paper

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

Wednesday 22<sup>nd</sup> August 2012 – 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, 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 **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)**

Fairfax Limited operates a business as a manufacturer of quality furniture from its premises in Co Down. It has two associated companies who operate in a similar line of business in the U.K. The company has traded successfully albeit there has been a considerable downturn in business this year. Results for the year to 31.3.2012 show the following:-

	Notes	£	£
Sales			1,050,000
Cost of Sales			<u>(600,000)</u>
Gross Profit			450,000
<b>Other Income</b>			
Profit on sale of Investments	(1)	10,000	
Dividends for UK Co(net)		11,250	
Interest from Bank Deposit	(2)	<u>1,800</u>	<u>23,050</u>
			473,050
<b>Less Expenses</b>			
Directors Remuneration	(3)	40,000	
Administrative overheads	(4)	125,274	
Selling & Marketing Expenses	(5)	46,526	
Financial Expenses	(6)	<u>11,200</u>	<u>223,000</u>
Net Profit before taxation			<u>250,050</u>

Notes:

- (1) The profit on the sale of investments resulted from the sale of quoted shares in July 2011. These shares had been bought in April 2011 for £16,750 and sold in July 2011 for £26,750.
- (2) This income would be determined as income from a non trading loan relationship.
- (3) This included an amount of £5,000 Pension Payment accrued and paid on 10 April 2012.

**Question 1 (Cont'd)**

- (4) Administrative overheads are made up as follows:

	£
Depreciation	17,200
Rent & Rates	25,000
Light & Heat	16,200
Telephone & Internet	2,754
Obsolete Stock write off	4,900
Motor & Travel	9,770
Miscellaneous Expenses	46,200
Staff Christmas Party gifts for 50 staff	<u>3,250</u>
	<u>125,274</u>

- (5) Selling & Marketing expenses for the year include:-

	£
Selling Expenses & warehouse costs	37,370
Debt collection costs	4,250
2% Increase in General bad debt Provision	2,750
Interest payment on late payment to supplier	300
Entertaining customers	<u>1,856</u>
	<u>46,526</u>

- (6) Financial Expenses include the following

	£
Bank interest on Loan on new premises	9,217
Qualifying Charitable Donations	1,200
Interest payable on loan (non Trade)	608
VAT Surcharge & default payment	<u>175</u>
	<u>11,200</u>

- (7) Capital allowances for the year have been agreed £23,200

- (8) The company has a trade loss carried forward amounting to £14,000

**Required:**

- a) You are required to calculate the Corporation Tax Liability for Fairfax Limited for the year ended 31 March 2012.

**18 Marks**

- b) State the date by which any outstanding liability must be paid.

**2 Marks****Total 20 Marks**

**Question 2 (Compulsory)**

- a) Jenson Ltd is a UK registered close company who prepares accounts to 30 June each year. Lewis Button, one of the company subscribers has been advanced £50,000 on his director's current account by the company on 10 July 2011. £20,000 of this is repaid in January 2012 and the remainder is written off by the company at this time.

Jenson Ltd now are unsure of how to deal with this matter and have asked for your advice.

**Required:**

State clearly the tax consequences of the loan by Jenson Ltd. to Lewis and outline the tax consequences to Lewis as a director.

**10 Marks**

- b) Unsure Ltd have been engaged in a number of asset acquisitions and disposals in the year and have asked for your advice in preparing a capital allowance claim for the year. Details of the transactions for the year ended 31/03/2012 are as follows:-

	£
Balance b/f 1/4/2011	
General Pool	242,600
Finance Directors Car	12,500
Managing Directors Car (Audi 70% Private use)	18,750
<u>Additions in Year</u>	
Machinery	32,000
Energy Saving Plant	14,000
Office Furniture	22,600
New Managing director Car (186g/km)	34,500
<u>Disposal Proceeds:</u>	
Machinery	11,250
Managing Directors Audi	14,000

**Required**

Calculate the total capital allowances for the year and state clearly the tax written down values to be carried forward to the next accounting period.

**10 Marks****Total 20 Marks**

**Question 3 (Compulsory)**

Lorraine has been employed as Marketing Director for some time by Gift-It Ltd. a company specialising in the order gifts market in the U.K. Although she has been happy here she has been considering another offer that has been made to her. Her current remuneration package includes the following:-

She receives an annual salary of £36,000 p.a. and in June each year receives a bonus of 3% based on the results of the previous years trading. Profits in y/e 31 December 2011 are expected to be significantly higher at £56,000.

In addition Lorraine receives the following 'perks' in her job:-

- 1 She has use of the company car park situated at company premises in the centre of the town. She pays a nominal £20 pm for use of this, but a conservative estimate would be that this saves her £1,110 p.a.
- 2 Lorraine is provided also with a childcare place at Gift-It in house nursery free of charge. This saves her an estimated £1,250 p.a.
- 3 She has been provided with a petrol motor car costing £20,000. CO<sub>2</sub> emissions are 167g/km. Gift-It also contributes £50 pm towards fuel for the vehicle. It is estimated that this covers half the cost of fuel for Lorraine's private motoring.
- 4 Lorraine has recently been installed as Lady Captain at the local golf club and since then the company have funded an interest free loan to her of £4,000 to cover any incidental costs she may incur in her duties. Additionally, they have provided her with the use of the company digital camera, which cost £900, for use at the Golf Club and weekend functions.

Her expenses in connection with the job include:-

- a) Payment of annual subscription of £275 to Chartered Institute of Marketing of which she is a member.
- b) Lorraine frequently uses her home phone to make business calls. The estimated cost of such calls in the year would be £90. The cost of line rental (inc internet) in the year is £160 and Lorraine estimates that 40% of all calls she makes/receives in the year of this landline would be business calls.
- c) Lorraine is also a member of an up-market City Centre Hotel Club. For this she pays an annual subscription of £120. Lorraine uses the club frequently to discuss business with potential clients. These discussions frequently lead to valuable contracts.

**Question 3** (*Cont'd*)

The other job offers a very attractive £55,000 p.a. salary. However, as it is based some distance away it would require Lorraine to move house. The company would pay the estimated £10,600 relocation expenses.

Lorraine would keep her own house and let it out (unfurnished) £8,400 p.a. or (furnished) £9,500 p.a. Rental costs for her in her new house would be cheaper at £6,000p.a.

Alternatively the company have offered her to reduce the relocation expenses to £5,300 and let her use an apartment purchased by the company some time ago at a cost of £120,000 (Annual value £3,200). The job however would only be for a three year period.

**Required:**

To assist Lorraine with the decision she now faces, calculate her net income after tax and national insurance contributions for 2011/12 in:

- a) her current job
- b) the alternative offer that has been made.

**8 Marks****12 Marks****Total 20 Marks**



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

As part of a major planned re-organisation and change in operations Shift Ltd. have engaged in the disposal of various assets and investments of the company as follows:-

1. On the 10 July 2011 (RPI 226.4) the company sold 3,000 of its 4,000 share holding in Makit Ltd. for £22,000. These shares had been bought over a number of years as follows:-

<u>Date</u>	<u>Share</u>	<u>Cost</u>	<u>RPI</u>
August 1984	1000	2,750	89.9
December 1984	1000	3,250	90.9
April 1985			94.8
July 1986	2000	4,000	97.5

2. On the 4 September 2011 the company sold a piece of land for £30,000 that had been bought in November 1991. The whole piece of land cost £50,000 at that time. At the time of the sale the remaining land was valued at £120,000. The relevant RPI for these disposals are as follows:-

(Sept 87 – Sept 11) 1.365

(Nov 91 – Sept 11) 0.715

3. On the 20 December 2011 the company disposed of an asset for £25,500 (RPI 232.1) incurring incidental costs of sale of £500. The asset had originally been acquired on 15 February 1983 (RPI 83.0) at a cost of £5,000. Enhancement expenditure had been incurred on 10 April 1984 (RPI 88.6) amounting to £2,000.

**Required:**

- a) For each of the above disposals calculate the chargeable gains arising.

**12 Marks**

- b) State the amount of CGT payable and how this liability will be discharged.

**2 Marks**

- c) One of the directors in the company has heard about Entrepreneur's relief that may be available for disposals of capital assets but is unsure how this relief operates for disposals of Capital assets by a company. Outline briefly the conditions to be met to claim entrepreneur's relief and advise if this may be of any relevance in these circumstances.

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

**Question 5**

- (1) Ed is a company director and earns a regular monthly salary of £6,000. In December 2011 he received a £1,000 bonus. He is provided with a diesel engine company car that has an emission rating of 232g/km and that had a list price when new of £16,000. The company pays all the running costs of the car, including fuel. His BUPA subscription for private medical insurance for the family of £750 is paid by the company.

**Required:**

Identify and calculate all relevant NIC payable in respect of Ed for 2011/12.

**6 Marks**

- (2) Frances is self employed and makes up her accounts annually to 30 November. Her accounts for the year ended 30 November 2011 show a net profit of £7,020 and to 30 November 2012 £3,240. Her 2011/12 trading income is £8,620.

**Required**

Identify and calculate all relevant NIC's payable by Frances for 2011/12.

**6 Marks**

- (3) Kevin did not receive a tax return for 2011/12 but he was aware that he had income that had not been assessed to tax. He notified HMRC of this fact on 2 October 2012 and a return was issued to him on 15 November 2012. He completed the return and sent it back with the necessary payment on 7 April 2013.

**Required**

Advise Kevin on the penalties, surcharges and/or interest that he may be required to pay in the circumstances.

**8 Marks****Total 20 Marks**

**Question 6**

Tracy has operated a business for some time as a sole trader and has the following transactions during its business period in the quarter to 31 December 2011. All figures showing are exclusive of VAT:-

	£
Sales to UK customers:	
Standard Rate	26,400
Zero Rate	4,600
Export Sales:	
To VAT Registered EU countries	5,200
To non EU countries	6,400
Purchases:	
Standard Rate	15,800
Zero Rated	4,200
Expenses:	
Wages & Salaries	12,050
Car Repairs	820
Insurances	260
Entertaining foreign customers	450
Other Expenses (all standard rate)	9,400
Capital Transactions	
Purchase of new plant & machinery	8,000
Purchase of Motor Van	12,500

Tracy drives a car with an emission rating of 194g/km and charges the cost of all the petrol to her business bank account.

**Required**

- a) Calculate the amount of VAT payable/ repayable for the Q/E 31 December 2011 using normal VAT accounting rules.

**10 Marks**

- b) Tracy has heard of the availability of a trader using a Flat Rate Scheme to account for VAT. Briefly outline the conditions she must satisfy to be eligible for joining such a scheme.

**5 Marks**

- c) Show how the return would change if she applied to use the Flat Rate Scheme to calculate her VAT liability. (For this purpose, assume the Flat Rate % for her business sector is 10%).

**5 Marks****Total 20 Marks**

**Question 7**

*The following multiple choice question consists of TEN parts, each of which is followed by FOUR 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 obtained in the Answer booklet.*

1. If an accounting period is longer than 12 months which of the following statements show the correct approach for Corporation Tax purposes?
  - a) So long as the Accounting period does not exceed 18 m the whole period can form one Chargeable Accounting Period (CAP).
  - b) The Capital allowances are calculated for the long accounting period and deducted from the adjusted trade profits for the long accounting period. This is then time apportioned into 2 CAPs.
  - c) The trade profits for the long accounting period are time apportioned into **two** periods. Capital allowances are calculated for the long accounting period and then time apportioned before being deducted.
  - d) The trade profits for the long period are adjusted for tax purpose (before capital allowances) and the result time apportioned. Separate capital allowance computations are carried out for each CAP and then deducted.
  
2. A limited company has the following tax adjusted results for y/e 31 December as follows:-

	<u>2010</u>	<u>2011</u>
Trading Income/(Loss)	26,000	(64,000)
Investment Income	22,000	17,000
Chargeable Gains	-	14,000

The maximum amount of loss that can be set off against taxable total Profits for 2010 is:-

- a) £26,000
- b) £33,000
- c) £0
- d) £48,000

**Question 7 (Cont'd)**

3. Where the Chargeable Accounting Period is 9 months long, which of the following is true?

- a) AIA for each acquisition that qualifies would be reduced to  $\frac{9}{12}$  of its cost.
- b) AIA would be  $\frac{9}{12}$  of its limit i.e.  $\frac{9}{12} \times £100,000 = £75,000$
- c) WDA would be scaled down to  $\frac{9}{12}$  but any Balancing allowances would not be affected.
- d) Full AIA and WDA is available subject to limit of £100,000 and 20% of the relevant cost.

4. Avalon Ltd is a trading company with one associated company. It has the following results for the CAP 8m/e 31 12 2011

	£
Trading Profits	330,000
Chargeable Gains	40,000
Gift Aid Payment	10,000

Corporation Tax payable will be:

- a) £91,500
- b) £87,750
- c) £94,100
- d) £93,600

5. A sole trader has the following tax adjusted profits for the tax years 2010/11 and 2011/12

	2010/11	2011/12
Trade Profits/Loss	26,000	(50,000)
Other Income	24,000	28,000

What is the maximum amount of the loss that could be set against the individual's income for 2010/11?

- a) £20,000
- b) £22,000
- c) £50,000
- d) £26,000

**Question 7 (Cont'd)**

6. Frances has been trading in shares of Danko Ltd as follows:

15 April 2008	Purchased 5,000 shares	£15,250
20 October 2011	Sold 800 shares	£4,850
15 November 2011	Purchased 2,000 shares	£9,200
30 March 2012	Sold 6,000 shares	£25,000

The gain on the sale of shares on 20 October 2011 will be:-

- a) £2,410
- b) Nil, as Proceeds < £6,000
- c) £1,170
- d) £776

7. TC Ltd sold a 2 acre plot of land for £40,000 in June 2011. It was part of a 6 acre plot bought for £90,000 some years earlier. The remaining 4 acres were valued at £60,000 in June 2011. Indexation factor to date of sale 0.342. Chargeable Gain/Loss on sale will be:

- a) Nil.
- b) Allowable Loss £8,312
- c) Chargeable Gain £4,000
- d) Allowable Loss £36,000

8. Clive commenced trading on 1 November 2009. He makes up his accounts to 31 December each year and results for the 1<sup>st</sup> three accounting periods have been as follows:-

Period to 31 December 2009	1,600
Y/E 31 December 2010	10,800
Y/E 31 December 2011	9,200

Taxable profits in his second year of assessment will be:

- a) £10,600
- b) £10,800
- c) £9,200
- d) £11,400

**Question 7 (Cont'd)**

9. In the three months ended 30 June 2011 Mr Andrews makes a total of £400,000 of supplies of which £300,000 are taxable supplies. Input tax payable of £10,000 has been attributed as follows:-

	£
Attributed to taxable supplies	1,200
Attributed to exempt supplies	600
Unattributed VAT	<u>8,200</u>
	<u>10,000</u>

How much of this Input tax can Mr Andrews recover?

- a) £1,200
- b) £9,400
- c) £7,350
- d) £10,000

10. Alistair Higgins is registered for VAT in the UK and only makes taxable standard rate supplies. He is supplied with services from a German Supplier to the value of £50,000. What are the VAT consequences of the supply?

- a) Mr Higgins will have to account for output tax of  $£50,000 \times 20\% = £10,000$  on the supply and also £10,000 of Input Tax may be reclaimed.
- b) As this is traded between EU countries the transaction can be ignored.
- c) Mr Higgins will simply reclaim VAT charged by the supplier as Input Tax in the relevant period.
- d) The German Supplier will treat the goods as an EU export that will be considered Zero Rated. Mr Higgins will have no VAT to pay on the supply.

## 2<sup>nd</sup> Year Examination: August 2012

### Advanced Taxation NI

### Suggested Solutions

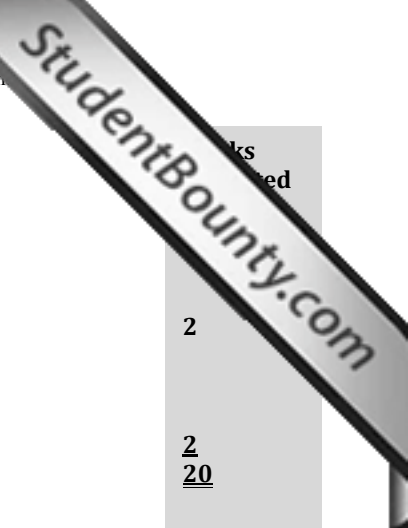
**Students please note:** These are suggested solutions only; alternative answers may also be deemed to be correct and will be marked on their own merits.

#### Solution 1 - Fairfax Limited

(a) Year Ended 31 March 2012

	£	£	Marks Allocated
Profits Before Taxation		250,050	
Less Income Assessable elsewhere:			
Profit on Sale	10,000		½
Dividends Received	11,250		½
Bank Interest	<u>1,800</u>	<u>(23,050)</u>	½
		227,000	
Add : Disallowable Expenses			
Accrued Pension Payment	5,000		1
Admin Expenses: Depreciation	17,200		½
Selling & Marketing: Increase in General Provision	2,750		1
Entertaining Customers	1,856		1
Financial Expenses: Qualifying Charitable Donation	1,200		1
Interest on non trade loan	608		1
VAT surcharge	<u>175</u>	<u>28,789</u>	
		255,789	
Less: Capital Allowances		(23,200)	1
Trade Losses b/forward		<u>(14,000)</u>	2
Trading Profit		218,589	
Add			
Non Trade Loan Relationship W1		1,192	2
Capital Gain W2		10,000	2
Deduct			
Non-Trade Charge PCTCT		<u>(1,200)</u>	1
		228,581	





**Solution 1 (Cont'd)**

Mainstream Corporation Tax

	£228,581 x 26% = 59,431.06
<u>Less</u>	
Marginal Relief W3	(3,689.60)
	<u>55,741.46</u>

(b) Tax payable to HMRC (online) by 1 January 2013

W1 Non –Trade Loan Relationship	
Bank Interest Received	1,800
Non trade Interest Paid	(608)
	<u>1,192</u>
W2 Capital gain	
Proceeds	26,750
Cost	(16,750)
	<u>10,000</u>
Ignore indexation allowance	
W3 Marginal Relief	
2 associated companies	
$500,000 - (228,581 + 12,500) \times \frac{228,581}{241,081} \times \frac{3}{200} =$ $= 258,919 \times \frac{228,581}{241,081} \times \frac{3}{200} = 3,689.60$	

2

2  
20

**Solution 2****Jenson Limited**

- (a) The company prepares accounts annually to 30 June, so the relevant accounting period will be the year to 30 June 2012. The company's normal tax payment date will be 1 April 2013. 2

By the end of the accounting period 30 June 2012 the amount owed by the director to the company will amount be £30,000. If the director has not repaid this £30,000 to the company before 1 April 2013 the company will be required to make a tax payment of £7,500 under S455 CTA 2010. 2

As regards the director's personal position, if the loan has been advanced interest free, a benefit in kind will arise from 10 July 2011 to 5 April 2012 (loan still outstanding at that date). The cash equivalent of the benefit in kind is allocated using HMRC's official rate of Interest (currently 4%). There are two methods of the calculation of the benefit in kind, both shown below:

Average method:

Balance o/s at start of tax year	50,000	
Balance o/s at end of tax year	<u>30,000</u>	2
	<u>80,000</u> ÷ 2 = 40,000	

$$\text{Av loan o/s } 40,000 \times 4\% = 1,600 \times \frac{8}{12} = \underline{\underline{\pounds 1,066}}$$

Strict (Statutory) Method:

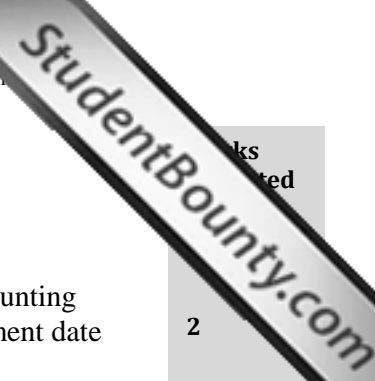
$$50,000 \times \frac{5}{12} \times 4\% = 833$$

$$30,000 \times \frac{3}{12} \times 4\% = \underline{\underline{300}}$$

$$\underline{\underline{1,133}}$$

The company must also pay NI contributions (Class 1A) on the benefit in kind figure at the rate of 13.8% by 19 July 2013 2

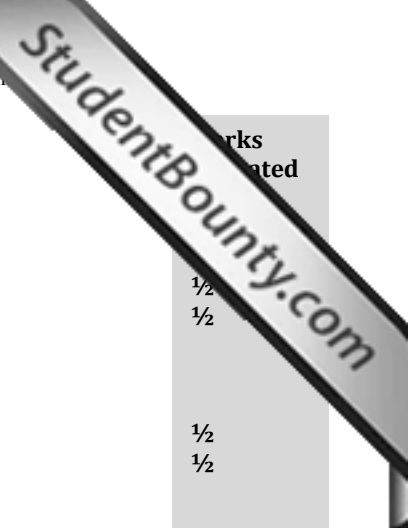
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**Solution 2 (Cont'd)****Unsure Ltd**

## (b) Capital Allowances

	Pool	Pre –FA 2009 MD Car	Pre – FA 2009 FD Car	P&M	Energy Saving Plant	MD Car >160 g/km Special Rate	
WDV B/Fwd	242,600	18,750	12,500				
Additions:					14,000	34,500	2
Machinery							
Office				32,000			1
Furniture				<u>22,600</u>			1
Disposals	<u>(11,250)</u>	<u>(14,000)</u>					
	231,350	4,750	12,500	54,600	14,000	34,000	2
WDA x 20%	(46,270)		(2,500)				1
BA		(4,750)					
AIA x 100%				(54,600)			1
ECA x 100%					(14,000)		1
Special Rate x 10%						(3,450)	<u>1</u>
<b><u>WDV C/Fwd</u></b>	185,080	-	10,000	-	-	31,050	<u>10</u>
<b><u>Claim to be made</u></b>	£						
WDA (46,270 + 4,750)	48,770						
Balancing Allowance	4,750						
AIA	54,600						
Energy Saving Special Rate	14,000						
claim	<u>3,450</u>						
	125,570						



**Solution 3 : Lorraine**

1. Taxable Income 2011/2012

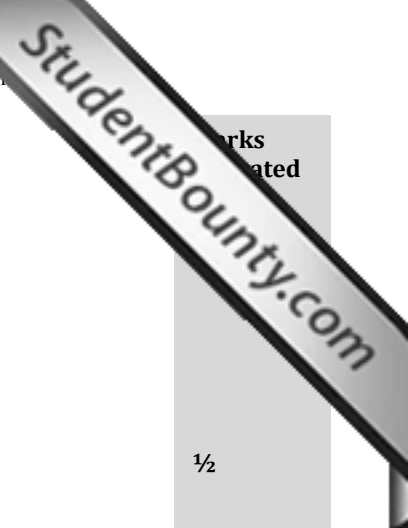
	£	
Salary	36,000	1/2
Bonus (3% * 56,000)	1,680	1/2
Car Park	Exempt	
Childcare	Exempt	
Company Car (£20,000 x 23%)	4,600	1/2
Fuel £18,300 x 23%	<u>4,324</u>	1/2
	46,604	
Less Allowable Deductions:		
Annual Sub CIM	(275)	1/2
Home Phone (no deduction for line rental)	(90)	1/2
City Centre Hotel Club	Not allowable	
Taxable Earnings	<u>46,329</u>	

2. Current Net Income

<u>Tax Due</u>	£	<u>NIC</u>	£	
46,239		3,000		2 Tax 2NIC
<u>(7,475)</u>		<u>(602)</u>		
<u>38,764</u>				
			<u>2,398</u> x 12% = 287.76 pm x 11 = 3,165	
35,000 x 20% = 7,000		<u>Bonus month</u> 3,000		
3,764 x 40% = <u>1,056</u>		<u>1,680</u>		
8,506		4,680		
		<u>(602)</u>		
		<u>4,078</u>		
			2,938 x 12% = 352.56	
			1,140 x 2% = <u>22.80</u> <u>375</u>	1 8
			<u>3,560</u>	

Net income	
Salary	36,000
Bonus	1,680
Less Tax	(8,506)
Less NIC	<u>(3,560)</u>
	<u>25,634</u>





**Solution 4 : Shift IT Ltd**

(a) Disposal 1: Share Disposal

S104 Pool

Date	Shares	Cost	Indexed Cost
August 1984	1,000	2,750	2,750
IA = $\frac{(90.9 - 89.9) \times 2,750}{89.9}$			31
December 1984	<u>1,000</u>	<u>3,250</u>	<u>3,250</u>
	2,000	6,000	6,031
IA = $\frac{(94.8 - 90.9) \times 6,031}{90.9}$			<u>259</u>
April 1985	2,000	6,000	6,290
$\frac{(97.5 - 94.8) \times 6,290}{94.8}$			179
July 1986	<u>2,000</u>	<u>4,000</u>	<u>4,000</u>
	4,000	10,000	10,469
IA = $\frac{(226.4 - 97.5) \times 10,469}{97.5}$			13,841
	4,000	10,000	24,310
7/2011	<u>(3,000)</u>	<u>(7,500)</u>	<u>(18,240) w1</u>
	1,000	2,500	6,070

W1  $24,310 / 4,000 = 6.08 \times 3,000 = 18,240$

Proceeds	22,000
Cost	(7,500)
Indexation Allowance (18,240 - 7,500)	<u>(10,740)</u>
	<u>3,760</u>

Disposal 2: Land Disposal

Proceeds	30,000
Cost $\frac{30,000}{120,000} \times 50,000$	(10,000)

Less Indexation Allowance  $0.715 * 10,000 =$  (7,150)  
12,850

1/2

1/2

1/2

1/2

1

1

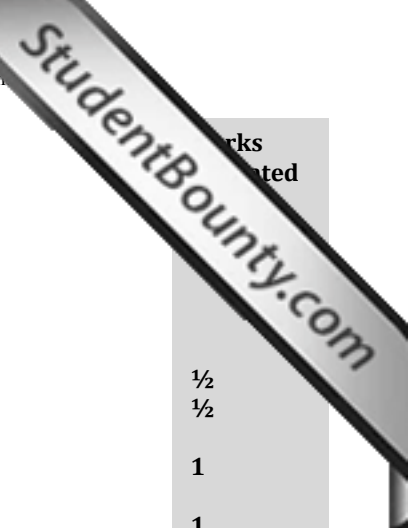
4

1

2

1

4



**Solution 4 (Cont'd)**

Disposal 3: Asset Disposal

Proceeds	25,500	
Less		
Cost of Sales	(500)	1/2
Cost	<u>(5,000)</u>	1/2
	20,000	
Enhancement	<u>(2,000)</u>	1
	18,000	
Less IA – Cost $\frac{(232.1-83.00)}{83.00} = 1.80 \times 5,000$	(9,000)	1
IA – Enhancement $\frac{(232.1 - 88.6)}{88.6} = 1.62 \times 2,000$	<u>(3,240)</u>	1
	<u>5,760</u>	4

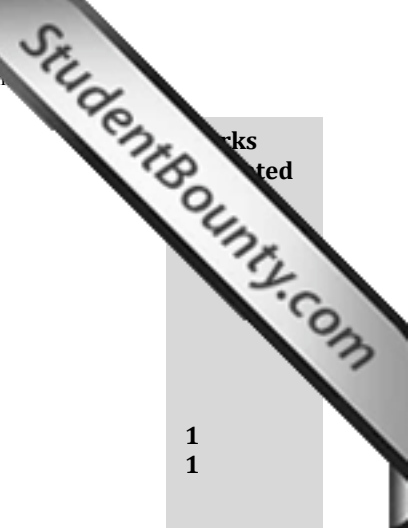
(b) Summary of Capital Gains Tax Liability

	£
Shares	3,760
Factory	-
Land	12,850
Asset 3	<u>5,760</u>
	<u>22,370</u>

© Entrepreneur's Relief

- Not available to a company 1
- Not given automatically must be relieved 1
- Asset must have been a qualifying business asset for the period of up to and year before sale. 1
- In the case of shares the company must have been a 'personal' company (where the shareholding amounted to at least 5%) and the company was an unquoted trading company. 1
- In the case of other assets for example a property) the property must be sold within 3 years of selling the shares to be regarded as an associated disposal. Relief will be restricted where has been charged to use the property in the previous 10 years. 1
- Lifetime allowance is £10m of taxable gain. 1

6



**Solution 5**

**(1) Ed**

Class 1 NIC must be applied to the annual earnings of Company Directors.

	£			
£6,000 x 12	=	72,000		1
Plus bonus		<u>20,000</u>		1
		92,000		
	NIC(Eee)		NIC(Eer)	
	92,000		92,000	1 NIC EE
Less (139 * 52)	<u>(7,228)</u>	Less (136 * 52)	<u>(7,072)</u>	1 NIC ER
	<u>84,772</u>		<u>84,928</u>	
			x 13.8% = £11,720	
NIC Payable				
(817 - 139) x 52 =	35,256 x 12% =	4,230.72		
	49,516 x 2% =	<u>990.32</u>		
		<u>5,221.04</u>		

Class 1A NIC on Benefits

Car	£16,000 x 35% =	5,600		2
Travel	£18,800 x 35% =	<u>6,580</u>		6
		12,180 x 13.8% =	<u>£1680.84</u>	

Summary -	NIC class 1 primary	£5,221	
	NIC class 1 secondary	£11,720	
	NIC class 1A	£1,680.84	

**(2) Frances – 2011/12 NIC**

Class 2 NIC	£2.50 x 52 =	£130		2
Class 4 NIC	8,620			2
Less	<u>(7,225)</u>			2
	<u>1,395</u> x 9%	£125.55		6



**Solution 5 (Cont'd)**(3) Kevin – Penalties etc

As notification of liability has been given to HMRC before 6 October 2012, Kevin must file his 2012 within 3 months of the date of issue of the return form. The return was issued 15 November 2012 so must be filed before to February 2013.

The return was not filed until 7 April 2013. Kevin is immediately liable to the first £100 late filing penalty. The inspector may apply to the Tribunal Service to impose late filing penalties of £10 per day.

Interest will always be charged from 1 February 2013 to the date of receipt of payment. That date in the case of cheque payments will be the date the cheque has cleared the bank account.

The collector should issue a late payment surcharge notice as all tax due for the year ended 5 April 2012 was not received by 28 February 2013. That surcharge is calculated at 5% of the tax unpaid for that year (it excludes late paid payments on amount).

2

1

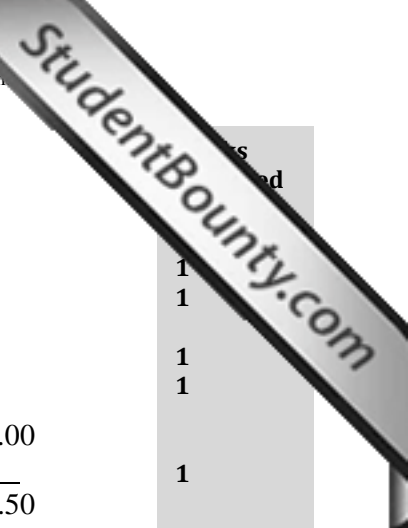
1

1

1

1

1**8**



Output VAT

UK	Standard Rate	26,400 x 20% = 5,280	1
	Zero Rate	4,600 x 0% = 0	1
Exports	To EU countries	5,200 x 0% = 0	1
	To non EU	6,400 x 0% = 0	1
		5,280.00	
Deemed Supplies: Scale Charge		<u>73.50</u>	1
Total Output Tax		5,353.50	

Input VAT

	Standard Rate	15,800 x 20% = 3,160	1
	Zero Rate	4,200 x 0% = 0	1
	Car expenses 820 x 20%	= 164	1
	Other expenses 9,400 x 20%	= 1,880	1
	New Plant 8,000 x 20%	= 1,600	½
	New Van 12,500 x 20%	= <u>2,500</u>	½
		(9304.00)	10
Net VAT Repayable		<u>(3950.50)</u>	

To qualify for the flat rate scheme the traders VAT EXCLUSIVE turnover must not exceed £150,000 annually. The trader must have been VAT compliant for the previous 12 months and not been convicted of a VAT offence. If the results for Q/E 31 December 2011 are sustained, Tracey may not be able to join the scheme as her turnover in the next year must be £150,000 or less. Here VAT taxable turnover is the total of everything that you sell during the year that is liable for VAT. It includes standard, reduced rate or zero rate sales or other supplies. It excludes the actual VAT that you charge, VAT exempt sales and sales of any capital assets.

If Tracey is allowed to join and she uses the Flat Rate Scheme, you can't normally claim back the VAT you spend on capital assets you buy for your business. This is already taken into account in the flat rate percentage for your type of business. However, you may be able to claim back the VAT on certain capital asset purchases with a VAT-inclusive price of £2,000 or more. You make these claims by putting the amount of VAT you were charged in Box 4 of your VAT Return.

Output Tax

S/R 26,400 x 1.20 = 31,680		1
Z/R 4,600	<u>4,600</u>	1
	36,280 x 10% = 3,628	
Input VAT (Capital Assets only)		5
New Plant	(1,600)	
New Van	<u>(2,500)</u>	
Net Repayable	<u>(472)</u>	

**Solution 7: Multiple Choice**

1.	D	
2.	B	
3.	B	
4.	A	330,000 40,000 <u>(10,000)</u> 360,000 x 26% = 93,600 Less $\frac{(1.5m \times 8)}{2 \times 12} - 360,000 \times \frac{3}{200} = \underline{(2,100)}$ 91,500
5.	C	If all c/b
6.	C	Proceeds 4,850 – (800/2,000*9,200= 3,680)= 1,170
7.	A	Proceeds 40,000 Cost <u>40,000</u> * 90,000 <u>(36,000)</u> 40,000 + 60,000 4,000 IA Restricted (36,000 x 0.342) <u>(4,000)</u> NIL
8.	B	
9.	C	8,200 x $\frac{300k}{400k} = 6,150$ <u>1,200</u> 7,350
10.	A	

## 2<sup>nd</sup> Year Examination: August 2012

### Advanced Taxation NI

### Examiner's Report

Statistical Analysis - By Question							
Question No.	1	2	3	4	5	6	7
Average Mark (%)	56%	44%	53%	35%	31%	51%	43%
Nos. Attempting	49	49	49	13	16	28	41

Statistical Analysis - Overall	
Pass Rate	59%
Average Mark	47.5%
Range of Marks	Nos. of Students
0-39	7
40-59	13
50-59	23
60-69	4
70 and over	2
<b>Total No. Sitting Exam</b>	<b>49</b>
<b>Total Absent</b>	<b>10</b>
<b>Total Approved Absent</b>	<b>1</b>
<b>Total No. Applied for Exam</b>	<b>60</b>

The overall performance at this sitting of Advanced Taxation (NI) was not as good as May 2012. The average mark recorded at this session was 47.5% which is disappointing. What certainly is clear is that some students continue to present themselves for examination with continued significant gaps in core knowledge and an inability to answer compulsory questions on the paper.

#### QUESTION 1

This question was a Corporation Tax question that assessed key aspects of Adjusted Profits computation, treatment of capital allowances and trade losses brought forward. It also tested the treatment of marginal relief and payment date of Corporation Tax liabilities which a large number of candidates did not know.

## QUESTION 2

This question dealt with two key issues, namely the treatment of amount loaned and unpaid by a director and calculation of Capital Allowances.

Part (a) in particular was very poorly answered and virtually all candidates ignored the question which asked about the tax consequences of the situation from **both** the aspect of the company (distribution) and secondly the director personally (valuation of a benefit in kind). This was the most significant loss of marks in this question and a lot of students did not score at all in part (a). Part (b) on the calculation of Capital Allowances was generally well answered.

## QUESTION 3

This question was checking on candidate's knowledge of both the Tax and NIC consequences of an employee's remuneration package. Although some candidates found it difficult to identify the offers there was plenty of opportunity to gain marks for the benefits identified. Most notably a lot of students showed poor understanding of Class 1 NIC exemption limits and also the difference in the tax treatment of furnished and unfurnished lettings.

## QUESTION 4

This question was poorly answered by most and in particular it was concerning that a lot of candidates do not know how to deal with share disposals and the need to apply indexation allowance before each operative event in the share pool. Lack of knowledge about indexation allowance was further evident in disposals 2 and 3 in the question.

It was pleasing to see most knowing both the rules and conditions necessary to claim Entrepreneurs' Relief and part c to this question was answered well.

## QUESTION 5

This question was not a very popular question only answered by 16 out of the 49 students and dealt Classes 1, 1A, 2 and 4 NIC. Of the candidates answering this question not one seemed to understand that an employee does not pay Class 1 NIC on the value of benefits identified and made no reference at all to Class 1A NIC. Similarly, there were very few who mentioned Class 2 NIC (part2) and few who knew on which profit figures Frances would pay Class 4 NIC

In part (3) of the question only a few candidates knew specific dates upon which taxpayers must file returns with HMRC or the consequent penalties, surcharges or interest for non compliance.

## QUESTION 6

Part (a) of this VAT question was generally answered well by all candidates but where marks were lost in parts (b) and (c) were that a lot of candidates had at best sketchy knowledge of what a "Flat Rate Scheme" is and the conditions necessary to join. Very few candidates indeed were able to calculate how the VAT Return would differ if the taxpayer had been registered for such a scheme.

## QUESTION 7

Once again the Multiple Choice question was the by far the most popular question undertaken in the optional Section B of the paper with 84% of candidates electing to answer it. This question was answered well by a lot of the stronger candidates.