
Advanced Taxation

Northern Ireland

2nd Year Examination

May 2012

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.

There are often many possible approaches to the solution of questions in professional examinations. The examiner will accept alternatives to the suggested solution shown herein as long as that alternative is appropriate.

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
2nd Year Examination : Summer 2012
Paper : ADVANCED TAXATION (Northern Ireland)

Wednesday 16th May 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

QUESTION 1 (Compulsory)

Bertie Robertson commenced business as a self employed dentist on 1st November 2009. Taxable profits for the first 13 months of trading to 30 November 2010 were £61,800 net of capital allowances of £3,200. Details of the Income and Expenditure of his practice for the following year to 30 November 2011 are as follows:

	Notes	£	£
Fees Charged			143,945
Expenditure Incurred			
Wages & Salaries	(1)	18,000	
Superannuation costs		3,000	
Premises Costs	(2)	10,650	
Laboratory Costs		22,629	
General Administrative Expenses	(3)	925	
Motor Expenses	(4)	35,700	
Repairs		750	
Insurance	(5)	8,100	
Sundry Expenses		300	
Depreciation		<u>2,325</u>	
			<u>102,379</u>
Surplus of Income over Expenditure			<u>41,566</u>

Notes:

1

Wages & Salaries	£
Locum cover	2,100
Dental Nurse	13,500
Secretarial Support	<u>2,400</u>
	<u>18,000</u>

2. Premises Costs

Bertie's surgery is located in the annex to his own home. Premises costs are made up as follows:

	£
Heat & Light	5,855
Insurance of building & contents	1,650
Rates	1,350
Cleaning	<u>1,795</u>
	<u>10,650</u>

Bertie has agreed with HM Inspector of Taxes that these costs relate 60% to private house, expenses 40% to business.

QUESTION 1 (Cont'd)

3. General Administrative Expenses

	£
Telephone costs	755
New Laser printer	<u>170</u>
	<u>925</u>

4. Motor Expenses

	£
Fuel Costs	2,978
Tax and Insurance	1,257
Repairs & Services costs	1,165
Payment of new car	
Lexus CO ₂ emissions 150g/km	<u>30,300</u>
	<u>35,700</u>

5. Insurance

	£
Payments to approved Personal Pension Scheme	1,260
Class 2 NIC payment	130
Professional Indemnity Insurance	1,108
Income Protection Insurance Bertie	<u>5,602</u>
	<u>8,100</u>

6. Capital allowance

The capital allowances computation for the last accounting period closed with written down values brought forward as follows:

	£
Main Pool	20,000
Single Asset Pool	
-Car (Audi) Private Use 25%	9,000

QUESTION 1 (Cont'd)

During the accounting period the following assets were acquired and disposed of:-

- i) Bertie replaced his motor car at a cost of £30,300 (note4). The previous car (Audi) which had a tax written down value brought forward at the start of the year £9,000, was traded in against the new vehicle at value of £9,700. The balance owing of £30,300 on the new car to the car dealer was paid by Bertie in cash. It has been agreed that private use will be maintained at 25%.
- ii) Other fixed assets traded in the year were as follows:-
- o Equipment in the main pool was sold for £2,000.
 - o A computer system had been installed to maintain patient records and booking system for £5,000. Other private use of the system had been agreed at 10%.
 - o A Ford Focus car has been purchased for staff use at £11,000. Emissions for the vehicle are 135 g/km.

Required:

- a) Compute the adjusted profits for Bertie for the year ended 30 November 2011. **6 Marks**
- b) Compute the maximum Capital allowance available to Bertie for the year ended 30 November 2011. **6 Marks**
- c) Compute Bertie's profit assessments for all tax years affected. **6 Marks**
- d) Compute the element of the overlap profits and outline relief for them. **2 Marks**
- Total 20 Marks**

Cutit Ltd. has produced a set of accounts to cover the period 1 May 2010 to 31 August 2011 showing an adjusted Trade Profit before Capital Allowances of £370,000. Written down values for the Accounting Period y/e 30/4/2010 are as follows.

General Pool	£55,000
Special Rate Pool (Car CO ₂ emissions 165g/km)	£25,000

Analysis of the accounts reveals that the following assets were acquired/disposed of during the 16 months:-

1.11.2010	Disposal of Plant £12,000 (Original cost £10,000)
1.05.2011	Acquired 2 nd hand BMW vehicle, CO ₂ emissions 142g/km £17,500
1.06.2011	Acquired Plant costing £40,000
14.7.2011	Disposal of Special Rate Car (original cost £33,000) £12,000

Required

- a) Outline the Chargeable Accounting Periods (CAP) **4 Marks**
 - b) Calculate the capital allowance claimable in each period **12 Marks**
 - c) Calculate the Trading Income assessments for each CAP **4 Marks**
- Total 20 Marks**

QUESTION 3 (Compulsory)

George has taxable Income of £52,000 in 2011/12 and has made the following disposals of assets in the year:

- (1) 2,600 shares in XLP plc were disposed of to his son Jack for their market value of £26,000. These shares had been bought on 1 March 2004 for £58,000. Jack has subsequently disposed of the shares for £22,000.
- (2) On 12 July 2011 he disposed of 40 acres of land for £400,000. This was part of a 100 acre plot of land he had acquired some years ago for £200,000. At the date of the disposal the remaining 60 acres had been valued at £240,000.
- (3) A freehold shop on 1 March 2012 for £80,000. The shop had been acquired by George's wife in 1992 for £47,000. She had transferred it to George in 2004 when it was worth £60,000.
- (4) Sold a painting at auction on 11 November 2011 for £50,000. Auctioneer's Fees under normal terms are taken at 5% of proceeds. George had bought the painting some years ago for £26,000.

Required

- a) Calculate the Capital gains Tax Liability for George for 2011/12 outlining, briefly, where appropriate, your tax treatment of the disposal. **16 Marks**
 - b) Advise George of any steps he should have undertaken to reduce his Capital Gains Tax liability **4 Marks**
- Total 20 Marks**

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

During 2011/12 Catherine, as she has done for many years, let out a furnished room in her main residence to a student at the local university. She received £4,600 for this in the year and incurred allowable expenses of £850.

However, having retired in June 2011, Catherine has extended her property portfolio and has let properties as follows:-

House 1

House 1 was bought for £41,000 at auction as the property required a new roof at a cost of £3,300. The property was let unfurnished at £400 pm for six months from 1 June 2011. The property remained vacant until 1 January 2012 when it was let at an annual rental of £6,000 payable monthly in advance.

House 2

House 2 was bought for £56,000 on 1 June 2011. Furniture for the property was also bought at a cost of £2,900 and the house was let furnished at a cost of £8,000 pa from 1 August.

House 3

House 3 was bought for £48,000 in July 2011 and, after carrying out some decoration of the property amounting to £1,200 and purchasing some furniture at a cost of £2,700 for the property, it was let fully furnished on 1 September 2011 at a cost of £8,400 pa payable in advance.

Expenses in relation to the properties were incurred as follows:-

	House 1	House 2	House 3
Water Rates	320	240	
Building Ins	480 (ye 31/5/12)	440 (ye30/6/12)	
Contents Ins			180 (ye 31/7/12)

Catherine is also considering investing in two holiday cottages in the Glens of Antrim but is unsure how this is dealt with from a tax prospective.

Required:

- (a) Calculate Catherine's taxable income from all property letting in the 2011/12 year.

12 Marks

- (b) Outline to Catherine the requirements for the cottages to be treated as furnished holiday lettings and the income tax treatment of such lettings.

4 Marks

- (c) Outline how the sale of her principal private residence is dealt with for Capital Gains Tax purposes when she eventually sells the property.

4 Marks**Total 20 Marks****QUESTION 5**

- a) Sarah has traded for some years on her own account with varying degrees of success. She is unclear, however, what tax relief is available to her for losses she may incur in the course of trade. Outline the loss relief that may be available to her and how this relief may be used to reduce Sarah's tax liability.

10 Marks

- b) Set out below are the results of the business up to its cessation on 30 September 2011

Y/E 31 December 2008	20,000
Y/E 31 December 2009	4,000
Y/E 31 December 2010	3,000
9 m/e 30 September 2011	(19,500)

Overlap profits on commencement were £4,500. These were all unrelieved on cessation.

Show the available Terminal Loss Relief and show how this relief may be obtained .

10 Marks**Total 20 Marks****QUESTION 6**

You have recently left HMRC after a number of years and have just been employed as a tax manager in practice. As a tax manager in a growing Accountancy practice, you have been asked to prepare a Tax Brief to practice clients advising them of their duties, rights and responsibilities in connection with various tax compliance matters. The partner has highlighted the event to clients and in preparation wishes you to draft an outline of the brief to include the following:-

- a) Reasons for and general time limits of an HMRC enquiry. **5 Marks**
- b) Information that cannot be requested as part of an HMRC enquiry. **5 Marks**
- c) HMRC's inspection powers. **5 Marks**
- d) A brief outline of the common Penalty Regime imposed by HMRC for errors in tax returns. **5 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. Where a taxpayer owns two properties and resides in both properties at different times of the year, the property that will qualify for PPR relief will be determined as:-
 - a) the first property to be sold is deemed to be the one qualifying for relief.
 - b) relief is given against the property which will produce the greater gain on disposal and which is therefore deemed to be the one qualifying for relief.
 - c) the property nominated by the taxpayer as their principle private residence within two years of owning more than one house.
 - d) relief is given to the extent of the overall percentage occupation for each property.

2. Which of the following statements is correct?
 - a) Entrepreneur's relief is available, without restriction, to individuals for the disposal of relevant business assets.
 - b) Entrepreneur's relief is restricted to £10,000,000 for the lifetime of the taxpayer.
 - c) Entrepreneur's relief is restricted to £5,000,000 for the lifetime of the taxpayer.
 - d) Entrepreneur's relief is available up to £10,000,000 for each disposal of relevant business assets.

3. Which of the following statements is correct?
 - a) A loss made by a sole trader can be relieved against total income arising in future years.
 - b) A loss made by a sole trader can only be relieved against total profits made in the same tax year.
 - c) For a loss made by a sole trader in the preceding tax year, it must first have been relieved in the current tax year.
 - d) A sole trader can restrict the amount of loss carried back so that personal allowances are not lost.

QUESTION 7 (Cont'd)

4. Max Frazer submits his 2010/11 Income Tax Return on the 12th January 2012. His return shows an outstanding Income Tax balancing payment due of £2,000 which he pays on 19th April 2012. The total surcharge payable by Max will be:-
- a) £100
 - b) £300
 - c) £200
 - d) Nil Penalty below the de-minimis limit
5. VAT is calculated:
- a) Using the highest rate of discount offered whether or not the discount is actually taken by the customer.
 - b) Before taking any discount into account.
 - c) Taking into account all cash discounts but excluding any settlement discounts offered to the customer.
 - d) Taking into account all discounts actually taken by the customer.
6. Frank, a barrister, leases a motor car that he uses both for private and business purposes. HMRC have agreed 25% private use. On the lease of this car, Frank who is registered for VAT, is entitled to reclaim.
- a) All VAT paid on the lease payments.
 - b) None of the VAT paid on the lease payment.
 - c) 25% of VAT paid on the lease payments.
 - d) 50% of VAT paid on the lease payment.
7. If a close company makes any loan or advance to an individual who is a participator, or their associates, it becomes liable to pay HMRC an amount equal to:-
- a) Official Rate of Interest (4%).
 - b) 20%
 - c) The rate of Corporation Tax applicable to the company.
 - d) 25%
8. Where a company makes a claim under S373(a) to set a trading loss against total profits of the same accounting period, this claim:
- a) can be limited to leave profits to cover all charges.
 - b) can be limited to leave profits to cover trade charges only.
 - c) can be limited to leave profits to cover non trade charges only.
 - d) cannot be limited to leave profits to cover any charges.

QUESTION 7 (Cont'd)

9. Barry uses his own car for business travelling. During the year he travelled 12,500 business miles and his employer reimburses him at a rate of 45p per mile. At the end of the year
- a) He will have a taxable amount £5,625.
 - b) He will have a taxable amount of £500.
 - c) He will be able to claim an allowable expense of £500.
 - d) He will have a taxable amount £0 as all mileage paid within HMRC guidelines.
10. Paula is an employee of Posh Pets Limited and has an approved personal pension scheme to which she subscribes £200 pm paying by direct debit. The tax implications of this are:
- a) Paula's assessable employment income is reduced by £2,400 p.a.
 - b) There are no tax implications as this is a Personal Pension scheme contribution for which she cannot claim tax relief.
 - c) Paula's basic rate band will be extended by £3,000
 - d) Paula's assessable employment income is reduced by £3,000p.a

Total 20 Marks

2nd Year Examination: May 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

Bertie Robinsion

1. Adjusted Profits

Net profit per accounts		41,566
Add Back: Disallowable expenses		
Superannuation	3,000	
Premises (10,650 * 0.60)	6,390	
General Admin: New Laser printer	170	
Motor Expenses: New Car	30,300	
Motor Expenses Private(35,700-	1,350	
30,300)*0.25	1,260	
Insurance: Personal Pension	130	
Insurance: Class II NIC	5,602	
Insurance: Income Protection		
Depreciation	<u>2,325</u>	
		<u>50,527</u>
		92,093
Less Capital allowances (2 below)		<u>(15,928)</u>
		<u>76,165</u>

Marks Allocated

1

1

½

½

1

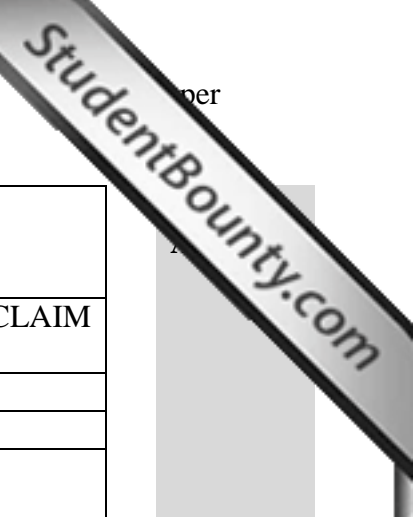
½

½

½

½

6



<u>2 Capital Allowances</u>			<u>Co₂ ≤ 160 g/km</u>			
		25% pu	25% pu	10% pu	Private Use	CLAIM
	Pool	Audi	Lexus	Printer/Computer		
WDV B/Fwd	20,000	9,000	-	-		
Additions (Ford Focus)	11,000	-	<u>40,000</u>	170		
				<u>5,000</u>		
Disposals	<u>(2,000)</u>	<u>(9,700)</u>				
	29,000	(700)	40,000	5,170		
WDA x 20%	<u>(5,800)</u>		<u>(8,000)</u>		2,000	11,800
BA/(BC)		700			(175)	(525)
AIA x 100%				<u>(5,170)</u>	517	<u>4,653</u>
						<u>15,928</u>
WDV C/F	23,200	-	32,000	-		

2
2
1
1
6

3.
 1.09.09 - 30/11/2010 61,800 (after capital allowances of £3,200)
 Y/E 30/11/2011

2009/10	1.11.09 – 5.4.09 61,800 x ⁵ / ₁₃	= 23,769
2010/11	Tax 12m to A/c date 1.12.09 – 30.11.10) x ¹² / ₁₃	= 57,046
2011/12	CYB Y/E 30.11.11	= 77,610

Marks Allocated

2
2
2

2
20

4. Overlap Profits.....
 1.12.09 – 5.4.09
 4/13 x £61,800 = 19,015

Solution2 Cutit Limited

- (a) The company has prepared accounts to cover 16 months so taxable profits. to be split over the following periods

	Mths
1.5.2010 – 30.4.2011	12
1.5.2011 -31.8.2011	<u>4</u>
	16

Marks
Allocated
2
<u>2</u>
4

- (b) Capital allowances

Capital allowances y/e 30.4.2011	Pool	>160g/km Special rate Pool			Claim
WDV B/Fwd	55,0000	25,000			
Disposal	<u>(10,000)</u>				
	45,000	25,000			
WDA x20%	<u>(9,000)</u>				9,000
WDA x 10%		<u>(2,500)</u>			<u>2,500</u>
WDV c/fwd	36,000	22,500			<u>11,500</u>
P/E 31.8.2011	Pool	>160g/km Special rate Pool	Pool		
WDV B/Fwd	36,000	22,500			
Additions (BMW) < 160 g km	17,500		40,000		
Disposal		<u>(12,000)</u>			
	53,5000	10,5000	40,000		
AIA x 100% (Max 100,000 ⁴ / ₁₂)					33,333
Transfer unrelieved balance into pool	<u>6,667</u>		(6,667)		
	60,167	10,500			
WDA x 10% x4/12	<u>(4,011)</u>				4,011
WDA x 10% x4/12		<u>(350)</u>			<u>350</u>
WDV c/fwd	56,156	10,150	-		37,694
	£	Y/E		P/E	
		30.4.2011		31.8.11	
Profit before Capital Allowances	370,000	277,500		92,500	

Marks Allocated

1

1

13

2

1

2

1

1½

1½9

2

Solution 2**(Cont'd)**

Less Capital Allowance above		<u>(11,500)</u>		<u>(37,694)</u>	
PCTCT		<u>266,000</u>		<u>54,806</u>	Total

Solution 3 George

		£
<u>1. XLP Plc Shares</u>	Proceeds	26,000
	Less	
	Cost	<u>(58,000)</u>
		<u>(32,000)</u>
<u>2. 40 Acres Land</u>	Proceeds	400,000
	Less	
	Cost <u>400</u> 240+400 x £200,000	<u>(125,000)</u>
		<u>275,000</u>
<u>3. Freehold Shop</u>	Proceeds	80,000
	Less	
	Cost (to spouse)	<u>(47,000)</u>
		<u>33,000</u>
<u>4. Painting</u>	Proceeds	50,000
	Less	
	Fees (50,000 x 5%)	(2,500)
	Cost	<u>(26,000)</u>
		<u>21,500</u>
<u>Summary</u>	<u>Gains</u>	<u>Losses</u>
(1)	-	(32,000)
(2)	275,000	-
(3)	33,000	-
(4)	21,500	-
	<u>329,500</u>	<u>(32,000)</u>
Loss on Disposal 1 is a loss on a disposal to a connected person. This loss must be c/f and set off ONLY against future gains to the same connected person.		
		£
Georges Income		52,000
Less Personal Allowance		<u>(7,475)</u>
		<u>44,525</u>
Basic Rate Band will be fully utilised against other income		
	All gains therefore taxable at higher rate	
Gains	329,500	

per

All

3

3

3

3

2

1

Solution 3
(Cont'd)

Less Annual exemption	(10,600)	
		318,900 x 28% = £89,292
	payable by 31 January 2013	

b) As per my calculations your estimated Tax liability on Capital Gains made in the year amounts to £89,292.

Below are some points that you should have considered before these disposals are made:

(1) Rather than give the shares to Jack to waste a loss that could otherwise be used against other gains made in the year, you could sell the shares for £22,000 (the price Jack sold them for). This could then be given to Jack and at the same time realise a loss of £36,000 that could be offset against other gains and reduces your liability by £10,080 ($36,000 * 0.28$)

(2) We have not looked at your wife's tax position. If she is liable to the basic rate of capital gains tax, you could have reduced your tax liability further by £5,208 if she had sold the shop:

10,600 x 28% =	2,968
<u>22,400</u> x (28% - 18%) =	<u>2,240</u>
<u>33,000</u>	<u>5,208</u>

It is unlikely that any other savings would have been achieved although your wife may still have potentially £12,600 (35,000 less 22,400) of her basic rate band still available for use.

I hope this gives you some matters to consider.

**Marks
Allocated**

2

2

20

Solution 4 Catherine Monroe

(a)

	Private House	Marks Allocated	House 1	Marks Allocated	House2	Marks Allocated	House3	Marks Allocated
Rental Income (W1)	4,600	1	3,900	1	6,000	1	5,600	1
Water Rates	-		(320)	1	(240)	½	-	
Building Ins (W2)	-		(400)	1	(330)	½	-	
Contents Ins (W3)	-		-		-		(120)	1
Rent a Room	(4,250)	1	=		=		=	
	350		3,180		5,430		5,480	
10% Wear and Tear (W4)	-				(543)	1	(548)	1
Taxable Profits	350	1	3,180		4,887		4,932	

(b) Furnished Holiday Lettings

For the properties to be considered as Furnished Holiday Lettings the following must apply:-

1. the property must be located in either the UK or EEA and as such the purchase of cottages in the Glens of Antrim will be eligible.
2. the business must be carried on with a view to realising a profit (not for loss relief or CGT relief)
3. the property must be *available* to let to the public for 140 days pa and it must be *actually* let for 70 days pa (but no letting to exceed 31 days in that 70 day period).

(c) As long as Catherine has occupied the main house as her principal private residence then the entire gain will be exempt from CGT, even though she has let part of the property under rent-a-room relief provisions. This relief is to encourage such rentals without adversely affecting the CGT relief otherwise available. Note Ref here expected to Actual occupation and periods of deemed occupation.

Marks Allocated4420 marks

Solution 4 (Cont'd)

W1 Rental Incomes

House 1	$\pounds 400 \times 6 =$	2,400
	$\pounds 6,000 \times 3/12 =$	<u>1,500</u>
		<u>3,900</u>
House 2	$\pounds 8,000 \times 9/12$	<u>6,000</u>
House 3	$\pounds 8,400 \times 8/12 =$	<u>5,600</u>

W2 Building Ins

House 1	$\pounds 480 \times 10/12 =$	<u>400</u>
House 2	$\pounds 400 \times 9/12 =$	<u>330</u>

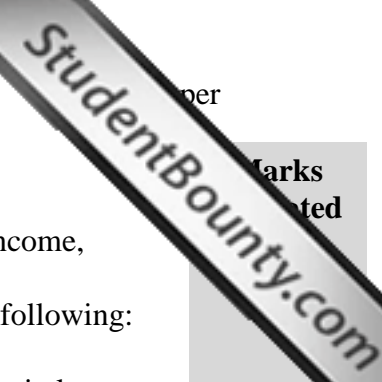
W3 Contents Ins

House 1	$\pounds 180 \times 8/12 =$	<u>120</u>
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W4 10%

House 2	6,000	
	Less <u>(570)</u>	
	5,430 x 10%	<u>543</u>

House 3	5,600	
	Less <u>(120)</u>	
	5,480 x 10%	<u>548</u>



Solution 5 Sarah

(a) (Note discussion here must make reference to c/b o c/f against total income, including or excluding capital gains, charges and personal allowances)
 In a continuing business loss relief can be dealt with in a combination of the following:

- losses can be off set against total taxable income (including capital gains) of the same tax year,
- losses can be carried back to set against total taxable income (including capital gains) of the immediately preceding tax year:
- losses can be carried forward to set against future profits arising from the same trade

10

(b) The year of cessation is 5 April 2012

Ordinary loss relief on cessation would be £

P/e 30 September 2011	19,500
Add overlap relief	<u>4,500</u>
	<u>24,000</u>

2

Terminal loss relief is:-

6.4.2011 – 30.9.2011	19,500	
1.10.2010 – 5.4.2011	Nil	(a profit)
overlap relief	<u>4,500</u>	
	<u>24,000</u>	

2

Whilst the amount of the loss is the same (£24,000) ordinary loss relief will only allow a carry back of one tax year. Terminal loss relief will allow for a longer period:

	2011/12	2010/11	2009/10	2008/09
Profits	-	3,000	4,000	20,000
Less				
Terminal Loss	-	(3,000)	(4,000)	(17,000)
		-	-	3,000

6
20

Without terminal loss relief tax on £20,000 (2008/09 would have remained within charge to tax.

Solution 6 HMRC ENQUIRY**1. Reasons for and general time limits of HMRC enquiry**

- HMRC accept all returns at face value and reserve the right to challenge any entry on the return form within the statutory enquiry period.
- The statutory enquiry period generally begins on the day after filing the return with HMRC and lasts for a period of 12 months.
- Where the return is filed late, the enquiry period will still extend to 12 months but will be further extended to the next quarter date (30 April, 31 July, 31 October or 31 January).
- An individual may amend their return at any time (subject to a current enquiry) within 22 months of filing the return.
- The HMRC enquiry will also be extended following any such amendment.

2. Information that cannot be requested as part of a HMRC enquiry.

- Papers that are covered by legal privilege, such as advices from a solicitor.
- accountancy working papers.
- personal information that has no bearing on the enquiry.
- other business information not required to verify an “aspect” enquiry.
- information about a third party.

3. HMRC Inspection Powers

- An inspector must issue notice to a tax-payer of the intention to inspect a business’s records.
- A separate period of notice should be given and the inspection should be carried out at a reasonable time.
- The inspector is not allowed access to private documents or rooms.
- The inspection cannot be a “fishing” exercise and must be properly required to check the validity of a return.
- There is no right of appeal against the inspection notice.

4. Common Penalty regime

- The common penalty regime covers all taxes (income tax, capital gains, corporation tax etc.)

Previously, a penalty was calculated at 100% of the tax due and then discounted. The new regime works from 0% and increases for the following faults: (4 marks- 1 mark each)

- Careless mistake in not taking reasonable care in filing a tax return
- deliberate error which is immediately disclosed on challenge by HMRC
- deliberate error, where the taxpayer subsequently denies the error or seeks to conceal or destroy evidence of the deliberate error where the error is serious the penalty loading could be as high as 100%
- where there has been a careless error that is unlikely to be-reported, HMRC may agree to suspend the penalty for the taxpayer to recognise and correct his previous error.

Solution 7

Multiple Choice

1. C
2. B
3. B
4. C
5. A
6. D
7. D
8. D
9. B
10. C

$$\begin{aligned} 10,000 \times 45p &= 4,500 \\ 7,500 \times 75p &= \underline{625} \\ &5,125 \text{ Relief} \\ &(5,625) \text{ Payments} - (12,500 \times 45p) \\ &500 \text{ Profit} \end{aligned}$$

2nd Year Examination: May 2012

Advanced Taxation NI

Examiner's Report

Statistical Analysis - By Question							
Question No.	1	2	3	4	5	6	7
Average Mark (%)	57%	55%	50%	50.5%	45%	38%	61%
Nos. Attempting	186	186	187	150	32	24	168

Statistical Analysis - Overall	
Pass Rate	67%
Average Mark	54%
Range of Marks	Nos. of Students
0-39	44
40-59	27
50-59	53
60-69	44
70 and over	29
Total No. Sitting Exam	187
Total Absent	26
Total Approved Absent	5
Total No. Applied for Exam	218

General Comment

The overall performance at this sitting of Advanced Taxation (NI) was good, with the Pass Rate improving significantly on last year's session of the examination.

The examination assessed core aspects of the syllabus and most candidates made a good attempt at the required 5 questions. Overall performance and scores on each question was as follows:-

QUESTION 1

This question was an Income Tax question that assessed key aspects of Adjusted Profits computation, Capital Allowance computation and examination of the Basis of Assessment for early years start up.

Most students coped well with the adjusted profits computation but, as has been common over the last few years, a number of students struggled with a Capital Allowance computation. Common errors here included incorrect calculation and treatment of Balancing charge and an inability to know how to deal with trade in value of old vehicle in the purchase of a new one. A sizeable majority simply calculated allowances on the net cost after trade in.

Parts c and d to the question testing basis of assessment and overlap profits was answered well and helped greatly with the overall average mark attained.

QUESTION 2

This Corporation Tax question concentrated on how to deal with a long period of account and the consequent need to split the capital allowances claim into the 12 month and 4 month period. While most correctly split the two claims they did not then subsequently restrict the AIA and WDA claims for the short period of account!

Any excess additions over the AIA limit were eligible to be transferred into the pool and entitled to claim WDA.

QUESTION 3

This question was generally well answered by students with a pleasing number fully aware of the detailed rules for various disposals made in the year. While a lot of students recognised that the loss in the year was a loss incurred on disposals to connected persons they did not subsequently demonstrate an understanding of how to deal with this. This was evidenced by the fact that they offset the loss against other gains in the year which was incorrect.

QUESTION 4

This question was reasonably well answered by most and in particular it was pleasing to see most knowing both the rules and consequences of a property being treated as a "Furnished Letting" and the rules and consequence of the sale of one's "Principal Private Residence". What was less well known was how you deal with the letting of a room in your own house. Some students simply thought (wrongly) that because the net income after expenses was <£4,250 in the year it was non taxable.

QUESTION 5

This question was not a very popular question only answered by 32 of the 187 students but dealt with the treatment of Trading losses and Terminal Loss Relief. Most students answered well how the losses could be dealt with in the current, past or future years but were often not sufficiently specific as to what the losses could be offset against ie total income, gains and/or before or after charges, personal allowances etc.

In dealing with the Terminal Loss Relief a lot of students answering actually reduced the loss by the Overlap Relief instead of increasing it!

QUESTION 6

Pure theory questions as always do not prove popular with students and the average mark attained was only 8 marks. As always, students should address all aspects of the question asked as specific marks are assigned to detailed requirements of the question and unless these are answered marks cannot be awarded.

QUESTION 7

This Multiple Choice question was the by far the most popular question undertaken in the optional Section B of the paper with about 90% of candidates electing to answer it. It was very pleasing to note that the average score attained in this question of 12 marks suggests a good breadth of knowledge by candidates. Unlike other years, all students answering this question answered all 10 questions, which was pleasing to see.