

---

## Advanced Taxation Northern Ireland

2<sup>nd</sup> Year Examination

May 2014

Exam Paper, Solutions & Examiner's Comments



### NOTES TO USERS ABOUT THESE SOLUTIONS

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

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

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

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

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

© Accounting Technicians Ireland, 2014.



## Accounting Technicians Ireland

### 2<sup>nd</sup> Year Examination: Summer 2014 Paper

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

Thursday 15<sup>th</sup> May 2014 – 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, 2013. The provisions of the Finance Act, 2014 should be ignored.**

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

**Answer ALL THREE QUESTIONS in Section A, and ANY TWO of the 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)

Sportex Limited, a company operating in the UK has one associated company. The company is intending to change its accounting date and for this reason has drawn up accounts for an 8 month period to 31 March 2014. Information extracted from its Income Statement to that date includes:-

	£	£
Gross Profit		2,030,683
Dividends received (note 1)		<u>42,300</u>
Less expenses		2,072,983
Wages and Salaries (note 2)	888,203	
Accounting and Legal costs (note 3)	73,458	
Repairs and renewals (note 4)	155,506	
Motor Expenses (note 5)	146,683	
Depreciation	270,110	
Other allowable	<u>213,840</u>	<u>(1,747,800)</u>
Profit from trading		<u><u>325,183</u></u>

Notes:

1. Dividends received net in the year were:

	£
UK non- associated companies	27,900
Associated Companies	<u>14,400</u>
	<u><u>42,300</u></u>

2. Wages and salaries include Directors' salaries and personal pension contributions amounting to £46,000.

3. Accountancy and legal costs include:
- |  | £     |
|--|-------|
| Legal fees - renewal of 10 yr lease on office building | 950   |
| Taxation advice  | 2,600 |
| Annual accountancy and audit fee                       | 8,200 |

4. Included in the repairs and renewals expense is the cost of replacement office furniture of £6,800.

5. Motor expenses include lease payments of £9,820 on a car with CO<sub>2</sub> emissions of 220g/km. The car is used by the sales director. It is estimated that the vehicle is used 30% for private use.

Question 1 continues overleaf

**QUESTION 1** (Cont'd)

6. Other information on its non-current assets for the 8 month period ending 31 March 2014.

Written down values	b/f	£
General (main) pool		125,000
Special rate pool		47,000
<b>Additions</b>		
Office furniture (noted 4 above)		6,800
Machinery (bought 7.1.2014)		168,000
New car for Marketing Director (CO <sub>2</sub> emissions 170g/km)		28,000

7. Sportex Ltd. has over some years bought shares in Mondel Ltd. as follows:

Date	No. Of shares	Cost	RPI
9 <sup>th</sup> November 1992	8,000	£18,000	139.7
6 <sup>th</sup> May 1999	13,000	£24,000	165.5
1 <sup>st</sup> August 2013	3,000	£5,000	251.0
6 <sup>th</sup> August 2013	2,000	£3,000	251.0

On the 6<sup>th</sup> August 2013 Sportex Ltd. sold 10,000 of these shares for £34,000.

**Required:**

- (a) Calculate the chargeable gain arising on the disposal of the shares in Mondel Ltd. to be included in the Corporation Tax computation. **10 marks**
- (b) Calculate the Capital Allowances claim for Sportex Ltd. for the Period End 31 March 2014 assuming that the maximum allowances available are claimed. **8 marks**
- (c) Calculate the Adjusted Profits for Sportex Ltd. for the Period End 31 March 2014. **4 marks**
- (d) Calculate the Corporation Tax Liability for Sportex Ltd. for the Period End 31 March 2014. **8 marks**

**Total 30 Marks**

**QUESTION 2 (Compulsory)**

At a recent school reunion old school friends, Rosie and Sophie, were talking and comparing how their careers were progressing. Although they have the same level of both earned and investment income, they are surprised that their total Income Tax and NIC liabilities for 2013/14 are not the same. Details of their income are as follows:

**Rosie**

- Rosie is employed by Beautiful Linens Ltd. as a sales manager on a gross annual salary of £45,000.
- She was also provided with a second-hand car on 6 October 2013. It cost the company £8,000 but the list price of this car when bought new was £17,000. The car has CO<sub>2</sub> emissions of 168 g/km and has a diesel engine. The company pays all running costs (which have amounted this year to £965). No fuel for private use is provided.
- Rosie is provided with accommodation in the form of an apartment that Beautiful Linens Ltd. purchased for £165,000. It is not job related. The apartment has an annual value of £9,300. Rosie pays £200 pm towards the private use of the apartment.
- Rosie contributes 6% of her gross salary into an approved occupational pension scheme.
- Rosie's only other income received in the year was £1,800 of Building Society Interest.

**Sophie**

- Sophie on the other hand, is self-employed as an agent selling a number of high quality bed-linen products. She operates a small shop for this purpose and her income statement for the year ended 5 April 2014 is as follows:

Gross Profit		£125,680
<u>Less</u>		
Allowable expenses	£50,700	
Depreciation	£12,000	
Motor expenses (note 2)	£8,780	
Property expenses (note 3)	<u>£9,200</u>	
		(£80,680)
Net Profit		<u>£45,000</u>

- During the year Sophie drove a total of 16,500 miles of which 5,500 were for private journeys. Her motor car (CO<sub>2</sub> emissions 145 g/km) cost £14,200 in 2010 when it was bought and had a tax WDV of £9,600. She does not own any other assets that qualify for capital allowances.
- Sophie lives in an apartment above the shop. The whole premises was purchased in 2002 at a cost of £125,000. It is estimated that one quarter of the total property expenses relate to her private use.
- During 2013/14 Sophie pays £2,160 (net) as a personal pension contribution.
- Sophie's investment income in the year comes from dividends received of £1,800.

**Required:**

Calculate the total Income Tax Liability and relevant NIC for 2013/14 for both:-

- (a) Rosie 10 marks  
 (b) Sophie 10 marks

**Total 20 Marks**

**QUESTION 3** (*Compulsory*)

- (a) Janet has made a number of asset disposals in the year. Some years ago she purchased shares in Taughmo Ltd., some of which she has sold this year.

11 April 2006	Purchased 6,000 shares for £14,960.
16 January 2014	Sold 1,800 shares for £4460.
2 February 2014	Purchased 3,200 shares for £6,260.
28 March 2014	Sold 7,400 shares for £24,000.

**Required:**

Identify the gain/loss on the sale of shares (before exemption) for both:-

- |      |                      |                |
|------|----------------------|----------------|
| (i)  | 16 January 2014, and | <b>3 marks</b> |
| (ii) | 28 March 2014        | <b>3 marks</b> |

- (b) Laura, her daughter, is a higher rate tax payer and has capital losses brought forward of £4,000. She sold an asset during the tax year for £19,000. She had been given the asset by her husband when it was worth £7,500. Her husband had originally bought the asset for £6,500.

**Required:**

Assuming she claims all exemptions eligible, calculate:

- (i) The gain on the asset in the year.
- (ii) The amount of loss that will be relieved.
- (iii) The Capital Gains Tax payable.
- (iv) The loss carried forward to next year.

**4 marks**

**Total 10 Marks**

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

Head to Toe is a business run by Nicola, providing hairdressing and beautician services in Main Street, Newton, Northern Ireland. Annual turnover this year is expected to be £130,000 approximately. The business has been VAT registered for some time on the normal basis and all services of products are taxable at the standard rate. In the three months to 31 December 2013 the relevant transactions are as follows :

<b>Income for the period</b>	<b>£ (VAT exclusive)</b>
Hair styling, cut and colour	17,500
Product sales	3,400
Beautician services	4,200
Gift Voucher (1)	400
 <b>Expenses for the Period</b>	
Purchases (2) Invoiced in the period	9,175
Paid in the period	7,265
Product samples for clients (3)	450
Wages and salaries	13,077
Telephone	670
Electricity	1,500
Rates	1,200
Capital Equipment purchases (4)	5,000
Teas, coffees etc	458
Other allowable	725

Notes:

1. A number of gift vouchers had been issued for the Christmas season. None of the vouchers issued have been used by customers at the 31 December 2013.
2. Purchases for the business include shampoos, hair products and cosmetics used in the beautician salon in the quarter ended 31 December 2013. Head to Toe has been taking the benefit of credit terms provided to them.
3. 90 samples of a new shampoo range not normally available for private sale were given to customers free of charge as part of a special Christmas promotion. This shampoo would normally have a sales value of £10 (exc VAT). The cost of these is shown here at £5 each.
4. Capital Equipment purchases in the period have been made throughout the year. These purchases have been made from:

UK	3,600
EU	<u>1,400</u>
	<u>5,000</u>

**Question 4 continues overleaf**



**QUESTION 4** (*Cont'd*)**Required**

- (a) Calculate the VAT liability of Head to Toe for the three month period ended 31 December 2013. **12 marks**
- (b) Nicola is keen to try and cut down on the administrative burdens of operating her own business. Identify and outline which schemes may be of interest to her and briefly state:
- i) How the system works, and **4 marks**
  - ii) The conditions that must be satisfied in order that she may apply to be considered for such a scheme. **4 marks**

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

You have been presented with the following short Income Tax queries.

- (a) Derek the senior sales executive has been provided with the following company cars:-

From 6 April until 30 June 2013 he was provided with a petrol BMW purchased by the company second hand for £41,000 (List price £52,000) CO<sub>2</sub> emissions 152g/km. Following a promotion Derek changed his vehicle on 1 July 2013 to a Range Rover with a list price £72,000 (CO<sub>2</sub> emissions 230g/km). This vehicle was equipped additionally with a DVD facility in the rear seats at a cost of £1,200. No fuel was provided for either vehicle.

**Required:**

Calculate the benefit in kind assessable in the year 2013/14. **2 marks**

- (b) On 6 April 2013 Joan was provided with an interest free loan of £15,000. During the tax year she made four repayments of £1,500 each. The remainder of the loan was still outstanding at the end of 2013/14.

**Required:**

Calculate the benefit assessable in the year. **2 marks**

- (c) Roger lets out a room in his own home at an annual rent of £6,000. Expenses directly incurred in making the rental possible amount to £1,750.

**Required:**

Assuming Roger makes a claim for Rent a Room Relief calculate:

- (i) Income assessable in 2013/14. **1 mark**
- (ii) State the time limit to claim such relief. **1 mark**

**Question 5 continues overleaf**

**QUESTION 5 (Cont'd)**

- (d) Ed provides you with the following information that relates to his income for the tax year 2013/14.

<b>Date of Birth</b>	<b>4 August 1945</b>	
		<b>£</b>
Annual total pension was		19,650
Interest received on ISA (opened 2010)		890
Payments made to charities under Gift Aid Scheme		1,360(net)
Dividends from NIE PLC		4,950(net)
Bank Interest from Northern Bank Ltd.		3,200(net)

**Required:**

Calculate Ed's total taxable income in the year 2013/14

**4 marks**

- (e) Hilary aged 42, had employment income of £127,500 and received dividends of £900 (net). She paid £16,000 net into a personal pension scheme.

**Required:**

Calculate Hilary's total Income Tax Liability (before deduction of any tax paid at source) for 2013/2014.

**5 marks**

- (f) Ciara, a new client, is unsure of her likely tax liabilities in the months ahead. It is October 2014.

She has provided you with the following information :-

Paid 31 January 2014

2012/13	Balancing Payment	£13,250
	1 <sup>st</sup> Payment on Account	<u>£11,625</u>
		<u>£24,875</u>

Paid 31 July 2014 2<sup>nd</sup> Payment on Account                      £11,625

Draft computations for 2013/14 show Total Income Tax Payable of £26,800 and Capital Gains Tax Payable of £10,250.

**Required:**

Show the amounts payable:

- |      |                 |                |
|------|-----------------|----------------|
| (i)  | 31 January 2015 | <b>3 marks</b> |
| (ii) | 31 July 2015    | <b>2 marks</b> |

**Total 20 Marks**

**QUESTION 6**

- (a) Gill is a new client of the firm in which you are employed. She has called in with some general tax queries regarding enquiries and payments on account that are required to be made. She understands HMRC has the right to enquire into a tax return submitted by an individual.

**Required:**

Gill wishes for you to outline the following:

- |       |   |                |
|-------|---|----------------|
| (i)   | The scope of and reason for the enquiry.            | <b>3 marks</b> |
| (ii)  | The time limit for enquiries.                       | <b>4 marks</b> |
| (iii) | HMRC's entitlement and power to call for documents. | <b>3 marks</b> |
- (b) Additionally Gill is experiencing some cash flow problems and is concerned whether she will have sufficient funds available to pay the upcoming payments on account. In order for you to calculate the amounts due, she has provided you with the following information:-

2012/13 Income Tax Payable £5,100 (£1,250 already collected through PAYE)

2013/14 Income Tax Payable £7,629 (£1,635 already collected through PAYE)

**Required:**

Calculate the payment on account due on 31 January 2015, outlining to Gill exactly what each element of the payment is for.

**10 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.*

**Required**

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.*

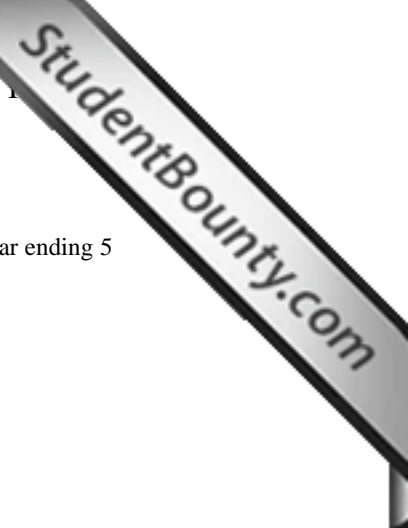
1. When a subcontractor in the construction industry is able to provide the contractor with their name, UTR or NI Number and can be verified online, a contractor should:
  - (a) Make payments gross, without deduction of tax.
  - (b) Make payments under the PAYE system.
  - (c) Deduct tax at 20% on payments, excluding the cost of materials.
  - (d) Deduct tax at 20% on payments, including the cost of materials.
  
2. Helena made a loss in her florist business in the year ended 31 March 2014. Which of the following statements is false?
  - (a) Helena can carry forward the loss and set against her future trading profits from her florist business.
  - (b) Helena can set the loss against her non trading income for 2012/13.
  - (c) Helena can set the loss against her non trading income for 2013/14.
  - (d) Helena can carry forward the loss for use against her total in the future years.
  
3. Lorraine incurred a loss on the disposal of some antique furniture in the in the year 2013/14. Which of the following is false?
  - (a) Lorraine can Carry Forward the loss to set against future capital gains.
  - (b) Lorraine can set the Capital Loss against chargeable gains in 2013/14.
  - (c) Lorraine must use her Annual Exemption against Capital Gains of the same year before the deduction of Capital Losses.
  - (d) Lorraine will use her Annual Exemption and deduct from Capital Gains after the deduction of capital losses of the same year.
  
4. A company has Trading Profits of £600,000 and rental income of £100,000 for the year ended 31 March 2014. It receives dividends of £45,000 in the same period. The Corporation Tax Liability for the year is:
  - (a) £167,250
  - (b) £172,500
  - (c) £155,750
  - (d) £166,100

**Question 7 continues overleaf**

**QUESTION 7 (Cont'd)**

5. Karen's father Jim bought an asset for £7,200. Some years later Jim died and left the asset to Karen in his will. The asset was valued at £10,000 at that time. Karen has now sold the asset to her sister Clare for £6,600 although, it was valued at £11,600. The chargeable gain/loss in the year will be:-
- (a) £1,600
  - (b) £600
  - (c) £4,400
  - (d) Nil
6. Tandex Ltd. received an order for goods from a customer on 14 September 2013. The goods were dispatched on 18 September 2013 and the customer paid on 15 October 2013, when they received their invoice, dated 13 October 2013. The basic tax point date for recording the transaction will be:-
- (a) 14 September 2013
  - (b) 18 September 2013
  - (c) 13 October 2013
  - (d) 15 October 2013
7. Import Ltd a UK VAT registered company that makes designer furniture for the UK market, imports £86,000 worth of furniture that has been supplied to it by a French VAT registered company at 19 % VAT. Which of the following statements is true?
- (a) The transaction is outside the scope of VAT.
  - (b) UK VAT at 20% is chargeable on the EU acquisitions with a UK VAT deduction allowed.
  - (c) UK VAT at 20% is chargeable with no UK VAT deduction allowed.
  - (d) A deduction of VAT at 19% can be made for the French VAT charged.
8. In March 2013 AMP Properties Ltd. (AMP) purchased a newly built office block for commercial let for £500,000 plus VAT of £100,000. In April 2013 it let the entire block under a 5 year lease for an annual rent of £35,000 pa. AMP did not waive its exemption in relation to VAT. The VAT chargeable on the rental payments is :-
- (a) Nil – it is an exempt supply.
  - (b) £0 – it is a zero rate supply.
  - (c) £1,750
  - (d) £7,000
9. Mark receives the following income during the tax year 2013/14:
- Salary £80,000, Rental Income £55,000, Bank Interest £10,250, Dividends Received £5,000. He paid PAYE of £21,900 during the year. Calculate his outstanding Income Tax due for 2013/14.
- (a) £29,678
  - (b) £26,150
  - (c) £31,109
  - (d) £30,234

**Question 7 continues overleaf**



**QUESTION 7** (*Cont'd*)

10. John Davids, aged 64, is self-employed and has tax adjusted profits of £61,666 during the year ending 5 April 2014. His total liability for NIC in the year will be :-

- (a) Nil – NIC obligations cease age 60.
- (b) 4,992.39
- (c) 3,436.87
- (d) 3,577.27

**Total 20 Marks**

## 2nd Year Examination: May 2014

### Advanced Taxation NI

### Suggested Solutions and Examiner's Comments

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

Statistical Analysis – By Question							
Question No.	1	2	3	4	5	6	7
Average Mark (%)	49%	67%	43%	49%	44%	41%	59%
Nos. Attempting	161	161	161	84	119	15	102

Statistical Analysis - Overall	
Pass Rate	65.2%
Average Mark	52%
Range of Marks	Nos. of Students
0-39	31
40-49	25
50-59	52
60-69	28
70 and over	25
<b>Total No. Sitting Exam</b>	<b>161</b>
<b>Total Absent</b>	<b>29</b>
<b>Total Approved Absent</b>	<b>5</b>
<b>Total No. Applied for Exam</b>	<b>195</b>

#### General Comments:

This year has seen a drop in both the Pass Rate and the Average mark attained compared to the same sitting last year. This was largely as a consequence of the performance in Question 1 and Question 3 of the paper.

**Examiner's Comments on Question One**

This was a comprehensive question covering both Corporation Tax and Capital Gains Tax on the disposal of shares by a company. Students are encouraged to revise the matching rules for the disposal of shares by a company and the need to create a share pool and index the cost of shares in/from that pool. It was noted that quite a number of candidates were unable to answer this correctly and thus lost the ten marks available.

The calculation of Capital Allowances was, in general, very well answered.

**Solution 1**

## a) Chargeable Gain

The disposal that took place on 6 August 2013 must be matched in the following order:-

**No. Of Shares**

- With disposals on same day	2000
- With disposals in previous 9 days	3000
- Balance (from share pool)	<u>5000</u>
	<u>10000</u>

**Chargeable Gain on Disposal**

	<b>£</b>
Proceeds	34,000
Less Cost	
-same day disposals	(3,000)
-previous 9 days	(5,000)
-disposals from share pool (see below)	(10,000)
Less indexation (16,366 – 10000)	<u>(6,366)</u>
Chargeable Gain	<u>9,634</u>

## Share Pool

	<b>No. Of Shares</b>	<b>Cost £</b>	<b>Indexed Cost £</b>
9 <sup>th</sup> November 1992	8000	18000	18000
Indexed rise to next purchase $(\frac{165.5 - 139.7}{139.7} \times 18,000)$			3324
6 <sup>th</sup> May 1999 purchase	<u>13000</u> 21000	<u>24000</u> 42000	<u>24000</u> 45,324
Indexed rise to next disposal. 6.5.199 – 6.8.2013 $(\frac{251.0 - 165.5}{165.5} \times 45,324)$			<u>23,415</u>
Disposal	21,000 <u>(5000)</u> <u>16000</u>	42,000 <u>(10000)</u> <sup>(w1)</sup> <u>32000</u>	68,739 <u>(16366)</u> <sup>(w2)</sup> <u>52373</u>

**Marks  
Allocated**

1

2

2

5 see  
below**Total 10**

1

1

1

1

1

c/f 5



$$W1 \quad \frac{42000}{21000} = \text{£}2 \text{ per share}$$

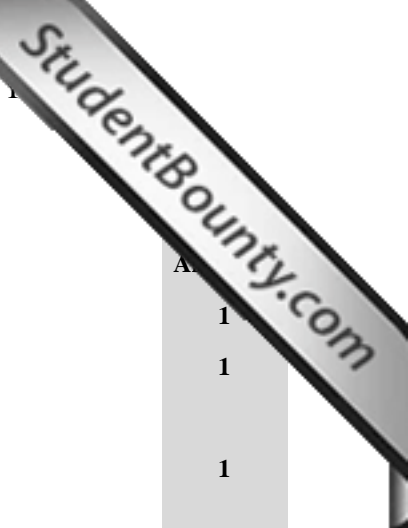
$$W2 \quad \frac{5000}{21000} * 68,739 = 16,366$$

**b) Capital Allowance Claim**

	£	Main Pool £	Special Rate Pool £	Capital Allowance £	
WDV BIF		125,000	47,000		1
Additions not qualifying AIA					
Car			28,000		1
Additions qualifying AIA					
Office Furniture	6,800				
Machinery	<u>168,000</u>				
	174,800				
AIA	<u>(166,667)</u>			166,667	2
$\frac{8}{12} \times 250,000$		<u>8,133</u>			1
		133,133	75,000		
W.D.A 18% $\times \frac{8}{12}$		(15,976)		15,976	1.5
W.D.A 8% $\times \frac{8}{12}$			(4000)	<u>4000</u>	<u>1.5</u>
WDV		<u>117,157</u>	<u>71,000</u>		<b>Total 8</b>
Capital Allowance Claim				<u>186,643</u>	

**c) Adjusted Profits**

	£	£	
Net Profit from Trading		325,183	0.5
less Income assessable elsewhere		<u>(42,300)</u>	0.5
		282,883	
Add Disallowance Expenses			
Repairs and Renewals (replacement furniture)	6,800		0.5
Motor Expenses (Lease costs 15%)	1,473		
Depreciation	<u>270,110</u>		1
		<u>278,383</u>	
		561,266	0.5
less Capital Allowances		<u>(186,643)</u>	1
Trade Profits		<u>374,623</u>	<b>Total 4</b>



**d) Corporation Tax Computation**

	<b>£</b>	A
Trade Profits	374,623	1
Chargeable Gains	<u>9,634</u>	1
PCTCT	384,257	
Add Fill (Dividends from Non Associated Companies only)		
<small><sup>27900</sup>/<sub>0.90</sub></small>	<u>31,000</u>	1
	<u>415,257</u>	
Tax Bands :(L) $\frac{300,000}{2} = 150,000 \times \frac{8}{12} =$	100,000	
(U) $1,500,000 = 750,000 \times \frac{8}{12} =$	500,000	
<u>Corporation Tax Payable</u>		
$384,257 \times 23\% =$	<b>£</b> 88,379.11	2
Less marginal relief		
$\frac{3}{400} \times (500,000 - 415,257) \times \frac{384,257}{415,257}$	(588.13)	3
	<hr/>	<b><u>Total 8</u></b>
Corporation Tax Payable	<u>87,790.98</u>	

**Examiner's Comments on Question Two**

This question was an Income Tax Computation for two individuals. Most students performed reasonably well in this question, although students need to revise the differences between the treatment of Occupational and Private Pension contributions. Students are advised to revise when and how to extend the Basic Rate Band for Personal Pension Contributions and to remember that Occupational Pension contributions will be deducted directly from taxable Gross Salary.

**Solution 2****Rosie** Income Tax Computation 2013/14

	N/S £	S £	Div £	Total £
Income from Employment	45,000			45,000
Less Pension Contribution	<u>(2,700)</u>			<u>(2,700)</u>
	42,300			42,300
B.I.K (NI)	<u>12,880</u>			<u>12,880</u>
	55,180			55,180
Building Society Interest (1800/0.80)	_____	<u>2,250</u>		<u>2,250</u>
Total Income	55,180	2,250		57,430
Less PA	<u>(9,440)</u>			<u>(9,440)</u>
Taxable Income	45,740	<u>2,250</u>		<u>47,990</u>

## Taxed:

N/S	32,010 @ 20%	=	6402.00
N/S	13,730 @ 40%	=	5492.00
S	<u>2,250</u> @ 40%	=	<u>900.00</u>
	<u>47,990</u> I.T		<u>12,794.00</u>
	<i>Liability</i>		

Class 1 NIC	£
(41,450 - 7755) x 12%	= 4,043.40
(45,000 - 41450) x 2%	= <u>85.80</u>
	<u>4,114.40</u>

Total IT and NIC Liability = £16,908.40

**Benefits in Kind**

i)	<b>Car Benefit</b>	£	£
	17,000 x 28% x $\frac{6}{12}$	=	2,380
ii)	<b>Accommodation</b>		
	Annual value	9,300	
	Expensive accommodation (165000-75000) x 4%	<u>3,600</u>	
		12,900	
	Less Contribution (12 x 200)	<u>(2,400)</u>	
			<u>10,500</u>
			<u>12,880</u>

**Marks  
Allocated****0.5****1****2.5 see  
below****0.5****0.5****1****1****1****1****Total 10****1****0.5****0.5****0.5****c/f 2.5**

**Sophie** Income Tax Computation 2013/14.

	N/S £		S £		Div £		Total £	
Profit from trade (NI)	61,075						61,075	4 see below
Dividends ( <sup>1800</sup> / <sub>0.90</sub> )					<u>2,000</u>		<u>2,000</u>	0.5
	61,075				2,000		63,075	
Less P.A	<u>(9,440)</u>						<u>9,440</u>	0.5
Taxable Income	<u>51,635</u>				<u>2,000</u>		<u>53,635</u>	
Basic Rate Band			32,010					
Add Personal Pension ( <sup>2160</sup> / <sub>0.80</sub> )			<u>2,700</u>				<u>34,710</u>	
			<u>34,710</u>					
<b>Taxed</b>								
N/S	34,710 x 20%	=	6,942.00					1
N/S	<u>16,935</u> x 40%	=	6,770.00					0.5
	51,635							
Div	<u>2000</u> x 32 1/2 %	=	<u>650.00</u>					0.5
	<u>53,635</u> I.T Liability		<u>14,366.00</u>					
<b>NIC</b>								
<b>Class II</b>	(52x2.70)		140.40					1
<b>Class IV</b>								
	(41,450-7.755) x 9%		3032.55					1
	(61,075 – 41.450) x 2%		<u>392.50</u>					1
			<u>3565.45</u>					1
Total IT and NIC Liability			<u>17,927.45</u>					<b>Total 10</b>
<b>Workings:</b>								
1. Profit from Trade			£					
Net Profit			45,000					0.5
Add Depreciation			12,000					0.5
Motor Expenses (8780 x <sup>500</sup> / <sub>16500</sub> )			2,927					1
Property Expenses (9200 x 1/4)			<u>2,300</u>					0.5
			62,227					
Less Capital Allowance (9600 x 18% x <sup>11000</sup> / <sub>16500</sub> )			<u>(1,152)</u>					1.5
			<u>61,075</u>					<u>c/f 4</u>

**Examiner's Comments on Question Three**

This question highlighted one of the major reasons for the drop in both the Pass Rate and Average mark in this paper. Students are strongly encouraged to ensure that they know the rules for share disposal by individuals for Capital Gains Tax. It was apparent that many candidates did not know this topic well and this affected their overall mark.

**Solution 3**Janet

i) Disposal of shares in Taughmo Limited.

Disposal 16 January 2014

The shares sold on 6<sup>th</sup> January will be matched with the 3200 shares purchased on the 2<sup>nd</sup> February (within 30 days following). This will leave 1400 of that purchase unmatched.

	£	
Proceeds	4,460	
less cost <u>1,800</u> x 6,260	<u>(3,521)</u>	
3,200		
 Gain	 <u>939</u>	 3

Disposal 28 March 2014

Shares sold on 28 March are unmatched with pooled shares bought April 2006.  $6000 + 1400 = 7400$

	£	
Proceeds	24,000	
less cost April 2006	(14,960)	
Balance February 2014 (6260 – 3521)	<u>(2,739)</u>	
Gain	<u>6,301</u>	3

ii) Laura disposal of asset.

	£	
Proceeds	19,000	
Less cost	<u>(6,500)</u>	1
Gain	12,500	1
Less losses B/R	<u>(1,600)</u>	1
Gain before AE	10,900	1
Less Annual Exemption	<u>(10,900)</u>	
Taxable Gains	<u>-</u>	

CGT Payable	NIL	
Capital Losses C/F	(4000-1600) - £2,400	<u>1</u>

**Total 10**

**Examiner's Comments on Question Four**

Both the calculation of the VAT liability and knowledge of VAT schemes that may be of interest to small traders were well answered in general. Students are reminded to pay attention to whether or not the figures given in the question are VAT inclusive or exclusive as inattention to this results in loss of marks.

**Solution Four****(a)**

Head .to. Toe VAT Liability Q/E 31 December 2013

	£	
<b><u>OUTPUT TAX</u></b>		
Hairstyling, cut and colour (17500 x 20%)	3,500	0.5
Product sales (3400 x 20%)	680	0.5
Beautician Sales (4.200 x 20%)	840	0.5
Gift Voucher (on redemption only)	-	1
Product Samples (not taxable)	-	1
Capital Equipment : EU (1400 x 20%)	<u>280</u> 5,300	1
<b><u>INPUT TAX</u></b>		
Purchases : invoiced in the period (9,175x20%)	1,835	1
Product samples (450x20%)	90	1
Telephone (670 x 20%)	134	0.5
Electricity (1,500 x 20%)	300	0.5
Rates	Z/R	1
Capital Equipment : UK (3600 x 20%)	720	1
: EU (1,400 x 20%)	280	1
Teas, coffee etc	Z/R	1
Other allowance (725 x 20%)	<u>145</u> <u>3,504</u>	<u>0.5</u>
		<b><u>Total 12</u></b>
VAT Payable	1,796	

(b)

Nicola may be interested in registering for either Cash Accounting Scheme or Flat Rate Scheme

Cash Account Scheme

This scheme allows trades to account for VAT when an invoice is paid and when cash is received.

2

It would be not considered that this would be of interest to Nicola as she would not be able to claim on invoices issued in the quarter. She would only be able to claim when payment is made on these and therefore a cash flow disadvantage.

2

Flat Rate Scheme

This would be of interest as the scheme is designed to help small businesses reduce the amount of time they spend accounting for VAT under this scheme the trader continues to charge VAT on sales and pays VAT on its purchases. However they do not return this information on their VAT returns. Instead the trader will apply a Flat rate % to their VAT inclusive turnover, but may make no reclaim of VAT on purchases.

2

NOTE: There would be a 1% reduction in the relevant Flat Rate percentage for the trader's first year of VAT registration.

To join the scheme the trader's annual taxable turnover must not exceed £150,000 (exc VAT).

2

8

**Examiner's Comments on Question Five**

This was the most popular of the optional questions. It was a series of short form questions over a range of Income Tax issues which covered detailed aspects of Personal Allowances, Benefits in Kind and Payments on Account. It was notable that while a lot of students performed well on the first parts, there is a need to revise how to calculate Outstanding Income Tax liabilities and/or Payments on Account.

**Solution Five**

	<b>£</b>	<b>Marks Allocated</b>
1. <u>Derek</u>		
Benefit assessable		
Provision of car	<b>£</b>	
BMW 52,000 x 22% x $\frac{3}{12}$ =	2,860	1
Range Rover 73,200 x 35% x $\frac{9}{12}$ =	<u>19,215</u>	1
	<u>22,075</u>	
2. <u>Joan</u>		
Provision of interest free loan	<b>£</b>	
$\frac{(15,000 + 9,000)}{2} \times 0.04 - 0 =$	480	2
3. <u>Roger</u>		
If a tax payer is claiming rent-a-room relief he cannot claim any other deductions from the rental home.		
i) Income Assessable 2013/14		
If the rent-a-room election is made Roger will simply be taxed on the gross rent in excess of the £4,250 limit ie £6,000 - £4,250 = £1,750.		
		1
ii) The time limit to claim Rent-a-room relief is one year after the due date for the on-line tax return ie: 2013/14 Return due 31-1-2015. The time limit + 12 months. Claim due 31.1.2016.		
		1



**Solution Five (Cont'd)**4. Ed

	£	Mark Allocate
<b>Total Taxable Income</b>		
Pension	19,650	0.5
ISA Interest	exempt	0.5
Bank Interest ( <sup>3200</sup> / <sub>0.8</sub> )	4,000	0.5
Dividend Income ( <sup>1950</sup> / <sub>0.90</sub> )	<u>5,500</u>	0.5
Total Income	29,150	0.5
Less Personal ALL (W1)	<u>(9,825)</u>	2 see below
Taxable Income	<u>19,325</u>	
<b>W1 Adjusted Net Income</b>	<b>£</b>	
Total Income	29,150	
Less Gift Aid ( <sup>1360</sup> / <sub>0.80</sub> )	<u>1,700</u>	0.5
	<u>27,450</u>	0.5
PA (65-74)	10,500	0.5
Less ½ (27,450-26,100)	<u>(675)</u>	0.5
	<u>9,825</u>	<u>c/f 2</u>
<b>5. Hilary</b>	<b>£</b>	
Income from employment	127,500	0.5
Dividends ( <sup>900</sup> / <sub>0.90</sub> )	<u>1,000</u>	0.5
Total Income	128,500	
Less P.A (W1)	<u>(5,190)</u>	2 see below
Taxable Income	<u>123,310</u>	below
Extended Basic Rate	32,010	
Add Personal Pension	<u>20,000</u>	
	£52,010	
<u>Taxed</u>		
N/S 52,010 x 20% =	10,402	1
N/S <u>70,300</u> x 40% =	<u>28,120</u>	0.5
122,310	38,522	0.5
DIV 1000 x 32.5% =	<u>325</u>	
123,310 IT Liability	38,847	<b>Total 5</b>
W1 Personal allowance	9,440	0.5
Less 50% (128,500-20,000) -100,000)	<u>4,250</u>	1.5
	5,190	<u>c/f 2</u>

**Solution Five (Cont'd)**

6) <u>Ciara</u>	£	
Income Tax for 2013/14	26,800	
Less already paid on A/C (2 X 11,625)	<u>(23,250)</u>	0.5
	3,550	
Add Capital gains tax 2013/14	<u>10,250</u>	
Total due for 2013/14	<u>13,800</u>	1
Payment due		
31.1.2015	£	
<sup>0</sup> / <sub>s</sub> 2013/14 (above)	13,800	
1 <sup>st</sup> payment on A/C 2014/15 (50% x 26,800)	<u>13,400</u>	1
	<u>27,200</u>	
Due 31.7.2015		
2 <sup>nd</sup> Payment on A/C	<u>13,400</u>	2
		<b><u>Total 5</u></b>

**Examiner's Comments on Question Six**

This was a theory question on HMRC enquiries (part a - 10 marks) and calculation of Payments on Account (part b - 10 marks). This was not a very popular question and again the area of 'Payments on Account' is one that students are encouraged to revise.

**Solution Six****Gill :**

HMRC Enquiries and Payments on Account

Further to your recent enquiry I have set out below the key aspects of your queries re: HMRC Enquiries and Payments on Account.

**a) Scope of an enquiry**

The enquiry could cover any aspect of your personal return, this might cover anything included in the return or that should have been included herein. This also includes any claims or elections that have been made.

3

**b) Time Limit**

Written notice of an enquiry into a tax return can be issued by HMRC during the twelve months after the filing date where the return was submitted on or before the due date.

1

If the return was submitted late this period is extended to the quarter end day following the first anniversary of the submission date (31 January, 30 April, 31 July or 31 October).

1

In addition, if an amendment is made to the return by the taxpayer (yourself), then this window is extended to the quarter day following the anniversary of the date the amendment was made.

1

If any enquiry is not made during this period the tax return becomes final, unless HMRC discover fraudulent or negligent conduct in making the return (in which case a discovery assessment can be made).

1

**Solution Six (Cont'd)****Power to call for documents**

Where an enquiry is underway, HM inspector of Taxes may request from the taxpayer any documents that it believes are necessary to enable it to discover whether a return is incorrect or incomplete.

A time limit will be given to comply with this request, although this will not be less than 30 days.

**c) Payments on Account**

From the information provided I have calculated the payment you will be required to make on the 31.1.2015 made up as follows:-

On 31.1.2015 you will be required to make

- i) Balancing Payment for any outstanding tax due in respect of 2013/14; and
- ii) 1<sup>st</sup> payment on account for 2014/15 (based on 50% of liability in 2013/14).

This I have calculated as follows:-

i)	Balancing Payment 2013/14	£	
	Income Tax Liability	7,629	
	Less PAYE	<u>(1,635)</u>	
		5,994	
	Less payment on account made		
	<u>(5,100 - 1,250 x2)</u>	<u>(3,850)</u>	
	2		
	Balancing Payment due 2013/14	2,144	
ii)	<u>1<sup>st</sup> Payment on Account 2014/15</u>		
	Based on 50% IT Liability 2013/14		
	<u>(7,629 - 1,635)</u>	=	
	2	2,997	
	Total Payment due 31.1.2015	<u>5,141</u>	

Note 2<sup>nd</sup> payment on A/C due 2014/15 of £2,997 will be required to be made 31.7.2015.

Alloc  
1  
2  
Total 10

0.5

0.5

1

1

2

1

2

2

Total 10

**Examiner's Comments on Question Seven**

Two issues were identified in this multiple choice question and were addressed as part of the marking process.

- 1) Part 1 (sub-contractors payments) was subject to interpretation and as a result of this either option A or option C could have been considered as correct. Accordingly, marks were awarded for either Option A or Option C.
- 2) A typographical error was identified in Part 4. This has been subsequently changed to show the correct answer in Option C (i.e. £155,750). As a consequence of this error, any answer given to Part 4 was deemed to be correct and marks awarded accordingly.

**Solution 7****2 Marks each**

- 1) **C** (See Examiner's Comment above)
- 2) **D**
- 3) **C**
- 4) **C** (See Examiner's Comment above)

Corporation Tax	$700,000 * 23\%$	161,000
Less Marginal Relief		
	$(1,500,000 - 750,000) * 700,000 / 750,000 * 3/400$	<u>(5,250)</u>
		<u>155,750</u>

- 5) **A**

Proceeds (Deemed)	11,600
Less Cost (MV Transfer)	<u>(10,000)</u>
Chargeable Gain	<u>1,600</u>
- 6) **B**
- 7) **B**
- 8) **A**

**Solution 7 (cont'd)****9) A**

Salary	80,000		80,000
Rental Income	55,000		50,000
Bank Interest (10,250/0.80)		12,813	12,813
Dividend (5,000 /0.90)			5,555
	135,000	12,813	5,555
			153,368

Less Personal All

Aged &lt; 65            9,440

Less

 $\frac{1}{2} (153,347 - 150,000) (26,683)$ NilTax Payable

32,010 \* 20%            6,402

102,990 \* 40%            41,196

12,813 \* 40%            5,125

2187 \* 32.5%            711

150,000

3,368 \* 37.5%            1,263153,368            54,697Less

Tax Credit on Div    (556)

Tax deducted at source

Bank Int            (2,563)

PAYE            (21,900)O/S IT Due            29,678

**Solution 7 (cont'd)****10) D**

Class 2 NIC $2.70 * 52$	140.40
Class 4 NIC	
$(7,755 - 41,450) * 9\%$	3,032.55
$(61,666 - 41,450) * 2\%$	<u>404.32</u>
	<u>3,577.27</u>