

Taxation II Northern Ireland

2nd Year Examination

August 2010

Paper, Solutions & Examiner's Report

IMPORTANT NOTICE TO USERS

This Paper (and suggested solution) has been updated as an additional study aid for the 2011 Examinations. Every effort has been made to retain the integrity of the original Examination Paper but please note that some differences will arise.

Please note that aspects of the June 2010 'Emergency' budget which come into effect on Jan 1 2011 will not be examined in the 2011 Examinations and thus they are not included in this update.



NOTES TO USERS ABOUT THESE SOLUTIONS

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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: Autumn 2010 Paper (Updated October 2010)

Paper : TAXATION II (Northern Ireland)

Wednesday 18th August 2010 – 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, 2009. The provisions of the Finance Act, 2010 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**All Questions in this section are Compulsory****QUESTION 1** (*Compulsory*)

Blue Star Limited a UK registered company, which has no associated companies, has the following results for the periods of account 1st October 2007 to 31st March 2011.

	Y/E 30.09.07 £	Y/E 30.09.08 £	6 M/E 31.03.09 £	Y/E 31.03.10 £	Y/E 31 st .3.11 £
Trade Profit/Loss	46,395	37,500	34,500	24,750	(112,500)
Capital Allowances	8,145	7,500	8,100	6,075	9,825
Taxed Income	2,250	2,400	1,800	1,950	2,100
Chargeable Gains	-	-	(9,000)	-	22,500
Gift Aid donations	7,500	7,500	7,500	7,500	7,500

Required:

- (a)** Show the way in which the trade losses incurred by the company in the Y/E 31st March 2011 can be relieved on the assumption that relief is claimed as early as possible and show clearly what profit is left, if any, chargeable to corporation tax.
- (b)** Show clearly what relief, if any, is available on any unrelieved charges

18 marks**2 marks****Total 20 Marks**

QUESTION 2 (Compulsory)

Hugh Hurley is a retailer who has been in business for many years now but has, in common with many other traders, experienced some financial pressures in the last trading year. The following is a summary of his Profit & Loss Account for the year ended 31st December 2010.

Gross Profit from trading	£	£
Add Other Income		98,000
Discount Received	1,200	
Commissions received (1)	750	
Rental Income (2)	9,000	
Bank Interest received (3)	<u>6,700</u>	
		<u>17,650</u>
		115,650
Other Expenses		
Salaries & Wages (4)	62,500	
Rent & Rates	18,250	
Light & Heat	6,800	
Repairs & Maintenance (5)	21,400	
Motor Expenses (6)	9,263	
Debt collection expenses (net) (7)	1,900	
Loan Repayments (8)	9,500	
Insurance (9)	2,856	
General Expenses (10)	4,625	
Depreciation	13,780	
Loss on sale (11)	<u>220</u>	
		<u>(151,094)</u>
Net Loss from trading		<u>(35,444)</u>

Notes

- Commissions are received on the sale of special promotional items.
- Rental income is received from a tenant who rents surplus storage space from Hugh at the back of shop. Hugh estimates that one tenth of the rent and rates and one eighth of the heat and light relate to this storage area.
- Bank interest received in the year is received net of basic rate tax at source.

4. Salaries and Wages include:	£
Salary paid to Hugh's wife Liz	12,000
Redundancy payment to former employee	10,000
Pension contribution paid on behalf of his wife	3,600

5. Repairs & maintenance costs include	£
Repairs to office photocopier	350
New printer for the office computer (purchased 1/7/2010)	650
Installation of central heating system (purchased 1/9/2010)	19,200
Repainting costs for the office	475

QUESTION 2 (Cont'd)

6. Motor expenses for the year include	£
Lease payments	6,000
Motor expenses all allowable	2,138
Re-imbursed business mileage paid to an employee 2,500 @ 45p per travel	<u>1,125</u>
	<u>9,263</u>

The lease payments on the new vehicle purchased in May 2010 at a cost of £15,000. This vehicle has CO2 emissions of 194g/km.

7. Debt collection costs include:	£
Increase in general bad debt provision	3,900
Increase in specific bad debt provision	3,600
Employee loan written off	5,000
Recovery of previous debt written off	<u>(10,600)</u>
	<u>1,900</u>

8. Loan repayments include interest repayments of £500.

9. Insurance costs include:	£
Shopkeeper's all-in policy	856
Retirement annuity premiums for Hugh	1,500
Keyman insurance	<u>500</u>
	<u>2,856</u>

10. General Expenses include:	£
Gifts to the top 50 customers:	
Food Hampers @ £30 each	1,500
Golf umbrellas bearing the company logo	1,000
Penalty of fine on late submission of tax return	100

11. In addition during the year Hugh has made the following purchases and sales of assets:

- 5 June 2010 Shop equipment sold for £1,200. This equipment had originally cost £8,000 and had a current NBV of £1,420.
- 4 September 2010 new shop equipment was purchased for £58,000.
- The tax WDV of assets b/f in the year was £10,000.

Required

- (a)** Prepare the adjusted profits computation showing clearly the make up of any adjustments required to be made to accounts prepared.
- (b)** Prepare the Capital Allowances computation for the shop equipment bought and sold in the year assuming that where available first year allowances are claimed.

Total 20 Marks

QUESTION 3 (*Compulsory*)

- (a) Write brief notes to illustrate your understanding of the consequences of a trader either failing to submit either his VAT return and/or payment late.

5 Marks

- (b) Billy has recently started to both buy and sell goods and services in both the Republic of Ireland and USA but is unsure how such items should be treated in his next VAT return. The items that he is unsure of include:

Sales in ROI to VAT registered businesses	£25,000
Sales in ROI to Non VAT registered businesses	£6,000
Sales to customers located in USA	£15,000
Purchase of goods/services in ROI	£4,000

All of the above figures are exclusive of VAT

Required

Advise Billy if there is any VAT due on the relevant sales/services and advise him if there is any VAT payable on the relevant purchases and how he should deal with these items on his next VAT return

5 Marks

- (c) During the quarter to 31 December 2010 Norris makes supplies as follows:-

	£
Standard rated supplies (exc VAT)	180,000
Zero-rated supplies	60,000
Exempt supplies	40,000

Input tax paid is as follows:-

	£
Attributed to taxable supplies	11,250
Attributed to exempt supplies	6,375
Un-attributable input tax	14,000

Required : Calculate the VAT payable to HMRC for the quarter.

5 Marks

- (d) VAT on goods/services that are bought for a mixture of business and non business use can be dealt with in one of two ways.

QUESTION 3 (*Cont'd*)**Required**

Outline what these two options are for the treatment of non business expenses
Indicate how you would deal with the following two items illustrating one
each of the two options outlined above

Foxy Limited provides a company car with CO2 emissions of 205g/km for the managing director for business (85%) and private (15%) use. The company pays for all running costs including petrol with no re-imburement from the director. Petrol bought in the quarter amounted to £500.

An electricity bill of £690 (inc of VAT at the standard rate) includes 10% private use

5 Marks
Total 20 Marks

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

1. In 2010/11, after his two children have left home, Alan decides to let out a room in his house as he lives close to the local university. He receives rent totaling £4,950 and incurs allowable costs of £750. If he has no election in respect of the property how much income will be assessable to tax in the year?

- (a) £4,200
(b) £700
(c) £NIL and he will be able to carry forward loss of £50
(d) £NIL

2. Unrelieved capital losses incurred in 2010/11 by a UK resident cannot be relieved against:-

- (a) Capital gains in the same year, before claiming annual exemption of £10,100
(b) Trading income of the current 2010/11 tax year
(c) Capital gains made in 2011/12, after first relieving against capital gains in 2010/11
(d) Capital gains made in future tax years

3. In May 2010 Katie sold her trading business which was set up in 1991 and sold all of the assets of the business that had been owned for many years and realised the following gains:

	£
Factory	255,000
Goodwill	300,000
Warehouse	(100,000)
Investment property	200,000

After claiming all allowances to which she would be entitled Katie will have a CGT liability of:

- (a) £123,950
(b) £79,682
(c) £126,778
(d) £99,061

4. Paul has been a self employed plumber since 1988. His taxable profits for 2010/11 are £72,000 and he has trade losses brought forward of £10,000. His wife Pauline is a part time childminder and her taxable profits for 2010/11 are £8,900. The Class 4 NIC payable in total by them will be:

- (a) £4,758
(b) £79,682
(c) £3,588
(d) £3,488

QUESTION 4 (Cont'd)

5. Pat commenced trading as a newsagent on the 1st October 2008. Monthly turnover for the first two years trading have been as follows:-

	Year 1	Year 2
	£	£
Sale of newspapers	2,600pm	3,600pm
Sale of stationery	1,900pm	2,480pm

From what date will Pat be liable to register for VAT

- (a) No requirement as sale of newspapers are exempt from VAT
(b) 31 January 2010
(c) 30 September 2010
(d) No requirement as the value of taxable supplies each year is below the registration limit
6. If a trader is registered for VAT in the UK and receives goods from other countries in the EU:
- (a) He must pay VAT at the VAT rate that would have been paid in the country of origin and reclaim this on his next VAT return
(b) There will be no VAT payable on goods imported into the UK
(c) As the goods are export goods these will be zero rated
(d) He must pay VAT at the same rate that would have been paid had the goods been supplied to the trader by a UK supplier
7. Door To Floor Ltd has chargeable profits of £975,000 for the year to 31 March 2011 and receives net UK dividends of £45,000. Their corporation tax liability for the year will be
- (a) £287,000
(b) £279,093
(c) £265,093
(d) £273,000

QUESTION 4 (Cont'd)

8. Greenspan Ltd is a large company as defined for corporation tax purposes and accordingly pays its corporation tax liability under the quarterly provisions. The first instalment of tax due on profits for the year ended 31st December 2010 will be due on
- (a) 14 July 2010
 - (b) 14 October 2010
 - (c) 14 July 2011
 - (d) 14 October 2011
9. Daniel was granted a loan by his employer of £35,000 on the 31 March 2010. to help finance the purchase of his new house. Interest will be payable at 3%pa and he has made capital repayments as follows: £5,000 was repaid on 1 June 2010 and a further £15,000 repaid on the 1st December 2010. The assessable benefit taxable on Daniel assuming no elections are made will be:
- (a) £437
 - (b) £412.50
 - (c) £NIL as this was interest on a qualifying loan
 - (d) £NIL because the loan was for the purchase of a house it could be considered to be job related accommodation.
10. Rory starts his new job as a sales rep in March 2009 earning £12,000 pa. On 6th April 2009 his employer decides to tidy up his appearance and a suit costing £300 was purchased for Rory by his employer on this date. On 6th October 2010, Rory purchases the suit from his employer £10 when the market value was £20. The value of the taxable benefit on Rory in 2010/2011 will be:
- (a) £230
 - (b) £260
 - (c) £NIL as the suit could be considered as necessary to carry out his job
 - (d) £20

Total 20 Marks

QUESTION 5

While at university Bobby Jordan lived in rented accommodation and since that time has invested in a number of properties himself. He currently has a healthy rental portfolio comprising of four houses. The details of income and expenses in respect of each of the properties for the year are as follows:-

Flat 1

This flat has been let out unfurnished throughout the year for £525pm, payable in advance. The last month's rent for the tax year had not been received by the year end but Bobby thinks it is likely that he will still receive it. A broken ground floor was broken and Bobby replaced this at a cost of £125. The insurance is paid annually in June and premiums for the year to 30 June 2010 was £360 and to 30 June 2011 was £400. Other allowable expenses for the year amounted to £800.

Flat 2

This flat has just been acquired this year and has proven to be a difficult house to let due to trouble in the area. Accordingly the property has only been let for six months at a discounted price of £390pm. Pre letting advertising costs amounted to £600. Other costs include purchase of a new washing machine £295, insurance £300, rates £400 and interest on a loan to buy the property £1,700.

House 3

This three bedroom house was purchased on 1 August 2010. Repair work was immediately required to be undertaken to the roof which was leaking. This cost £5,200 and re-decorating the top floor room thereafter amounted to £600. The house was rented out unfurnished from 1 October on a six year lease at an annual rental of £1,100 pm payable in advance. The new tenant was required to pay a lease premium of £2,500.

House 4

This house was let furnished throughout the year at a monthly rent of £800pm payable in advance. The tenants at the start of the year left without notice leaving two month's rent unpaid. Despite his best efforts Bobby thinks it is unlikely now to recover this money. Costs incurred in respect of this property were water rates £300, Agents fee payable at 10% income received, property insurance £400 and other allowable costs £750.

Required

Compute the net rental income assessable for Bobby for the year ended 5 April 2011

10 Marks

In addition to his property income Bobby had commenced in business on 1 November 2007 as a manufacturer of specialist swimwear. His tax adjusted profits since that time has been:

	£
Period ended 31 December 2008	16,000
Year ended 31 December 2009	19,000
Year ended 31 December 2010	22,500

QUESTION 5 (*Cont'd*)

Capital Allowances on plant and machinery have been calculated as follows:-

	£
Period to 31 December 2008	9,000
Year ended 31 December 2009	8,000
Year ended 31 December 2010	7,500

Required

Calculate the trading profits assessable on Bobby for all relevant years of assessment and advice of any overlap profits identified.

10 Marks
Total 20 Marks

QUESTION 6

1. On 1st May 2010 Nicky disposed of all of the assets of her business which she had run as a sole trader as a going concern. The proceeds and cost of the assets disposed were as follows:-

	Proceeds 1 st May 2009	Cost
	£	£
Freehold Premises	200,000	80,000
Goodwill	50,000	NIL
Investment Property	75,000	25,000
Motor Car	15,000	18,000
Stock	<u>60,000</u>	<u>65,000</u>
	<u>400,000</u>	<u>188,000</u>

The freehold premises were purchased in November 2001 and have always been used for business purposes. Goodwill had been built up since the commencement of trade in September 2001. The car was purchased on the 1st May 2009.

2. On 1 September 2010 Nicky sold a house for £400,000. She had bought the house on the 1 September 2000 for £70,000. She occupied the house as her main residence until 1st April 2003 when she went to live with her mother leaving the property unoccupied until she returned there on 31 August 2004. She lived in the house again until 31 August 2005. On that date she moved to a new property and left the house unoccupied until the date of sale.. Nicky had considered letting the property when she left it in 2005 up to the date of sale but did not do so.

Required

- (a) Calculate the amount of Capital Gains Tax payable upon Nicky's asset disposals in the year.

17 Marks

- (b) Outline briefly to Nicky what additional relief she could have got had the property been let for residential purposes during this time.

3 Marks**Total 20 Marks**

QUESTION 7

- (a) An accounting technician communicating or advising either a company or an individual on tax issues has duties and responsibilities towards both his client and HMRC. In carrying out these duties all accounting technicians should comply with five fundamental principles.

Required

Outline the five principles to which all technicians should adhere to in such communications.

10 Marks

- (b) In April 2011 HMRC issues a notice requiring an individual to submit a tax return for the year ended 5 April 2011. The return is submitted electronically to HMRC on 13 December 2011.

Required

- State the date by which any enquiry into the above return must begin
- How would the situation differ if a paper return had been submitted on 13 December 2011.
- How would the situation differ if the electronic return had not been submitted until 6th March 2011.

6 Marks

- (c) HMRC may raise a discovery assessment if it is discovered that full disclosure was not made on a tax return and as a result tax was lost.

Required

Outline the time limits for raising discovery assessments

- If due to fraud or negligence
- If due to incomplete disclosure without fraud or negligence

4 Marks**Total 20 Marks**

2nd Year Examination: August 2010

Taxation II (NI)

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.

Blue Star Ltd

Solution 1

	y/e	Y/e	6 M/e	Y/e	Y/e
	30.9.06	30.9.07	31.3.08	31.3.09	31.3.10
Trade Profit	38,250	30,000	26,400	18,675	Nil
Taxed Income	2,250	2,400	1,800	1,950	2,100
Chargeable Gain	<u>NIL</u>	<u>NIL</u>	<u>NIL</u>	<u>NIL</u>	<u>13,500</u>
Total Profits	40,500	32,400	28,200	20,625	15,600
Less loss relief					
CY (S393 A)					(15,600)
C/B 12m				(20,625)	
C/B 24m			(28,200)		
Max (50,000)		<u>(21,800)</u>			
	40,500	10,600			
Less Gift Aid	<u>(7,500)</u>	<u>(7,500)</u>	<u>Lost</u>	<u>Lost</u>	<u>Lost</u>
<u>PCTCT</u>	<u>33,000</u>	<u>3,100</u>	<u>Nil</u>	<u>Nil</u>	<u>Nil</u>

Note: Capital losses incurred 6m /e 31.3.08 can only be set off against future capital gains.

1) Loss Memo	£
Trade loss (before CA)	112,500
Add capital All	<u>9,825</u>
	122,325
Less Relief	
CY 5393 (A)	<u>(15,600)</u> *Capital gain Net of loss C/F £9,000
	106,725
c/b 12 m	<u>(20625)</u>
	86100
c/b Max 24 m £50,000	<u>(50,000)</u>
c/f	<u>36,100</u>

Solution 1 (*Cont'd*)

- 2) Charges paid in respect of Gift Aid donations in the 6m/e 31/3/08, y/e 31/3/09 and y/e 31/3/10 will be lost.
- 3) PCTCT will be identified
- | | |
|------------------|---------|
| a. y/e 30/9/06 | £33,000 |
| b. y/e 30/9/07 | £3,100 |
| c. 6 m/e 31/3/08 | £NIL |
| d. y/e 31/3/09 | £NIL |
- e. y/e 31/3/10 £NIL

Solution 2

		£
a	Net Loss from Trading	(35,444)
	Less income assessable elsewhere	
	Rental Income	9,000
	Bank Interest received	<u>6,700</u>
		<u>(15,700)</u>
		(51,144)
	Add disallowable Expenses	
	Rent & Rates ($\frac{1}{10}$)	1825
	Light & Heat ($\frac{1}{8}$)	850
	<u>Repairs & Maintenance</u>	
	New Printer	650
	Installation of central Heating	9,200
	<u>Motor Expenses</u>	
	Lease payments (6000x15%)	900
	<u>Debt Collection</u>	
	Increase in General Bad Debts	3,900
	Employee loan written off	5,000
	Loan repayments (capital)	9,000
	<u>Insurance</u>	
	Retirement Annuity premiums	1,500
	Keyman Insurance	500
	<u>General Expenses Hamper</u>	1,500
	Penalty: Fine	100
	Depreciation	13780
	Loss on sale	<u>220</u>
		<u>48,925</u>
		(2219)
	Less Capital Allowances (See working)	<u>(56,900)</u>
	Adjusted Loss	<u>(59119)</u>

b)

	£	General Pool	Allowances Claim
Tax WDV B/F			
Additions			
Qualifying for AIA (650,9,200,53,000)	62850		
Less AIA	<u>(50,000)</u>		50,000
	12850		
Disposal (lower /cost & Sale proceeds)		<u>(1,200)</u>	
		8,800	
Less WDA 20%		(1760)	1760
Less FYA 40%	<u>(5140)</u>		5140
		<u>1,800</u>	
WDV c/f		<u>8,840</u>	<u>56,900</u>

Solution 3

A If a registered trader submits a VAT return and/or payment late he is issued with a surcharge liability notice. This surcharge period usually runs for 12 months from the end of the VAT period concerned. If a further default occurs in this period, the period will be extended for 12 months from the date of the new default. If the default involves the late payment of VAT a surcharge on the outstanding amount is imposed on the trader as follows:

Number of Defaults	Surcharge %
1 st	2%
2 nd	5%
3 rd	10%
4 th or more	15%

The surcharge continues to be imposed until no defaults have been made for a continuous 12 month period.

B

- i) Sales in ROI to VAT registered business. VAT £ nil placed in outputs at Net Value £25,000. Billy needs to verify the ROI VAT number and state it on his invoice
- ii) Sales in ROI to Non- VAT registered businesses must be charged to include VAT at 17½%. VAT due will be $6000 \times 17\frac{1}{2}\% = \text{£}1,050$
- iii) Sales to customer located in USA are treated as exports to Non EU country and will as such be zero –rated. Billy should keep evidence that the goods were sent outside the UK.
- iv) Purchase of goods from ROI. Billy should not incur any ROI VAT on his UK VAT return. He should include such amounts as both EU acquisitions in Inputs and declare VAT on imports from EU as part of output Tax (Reverse charge)

COutput Tax

Std rate supplies (180,000 x 17½)	£ 31,500
Zero – rate supplies	<u>NIL</u>
	31,500

Input Tax

Attributable to taxable supplies	11,250	
Un-attributable input tax		
14,000 x $\frac{180,000 + 60,000}{180,000 + 60,000 + 40,000}$		
14,000 x 0.86	<u>12040</u>	
		<u>(23,290)</u>
VAT Payable to HMRC		<u>8120</u>

Solution 3 (*Cont'd*)

The input tax not attributed to taxable supplies for the quarter is £8,335 ($6375 + 14\% \times 14000$)

This exceeds the de minimis limit of £625 pm on average and so cannot be reclaimed.

D

The following two options are available

1) Apportion the input VAT and only claim the business element

Or

11) Reclaim Input VAT incurred and then charge output VAT on the personal element as a "DEEMED SUPPLY"

Fuel : Deemed supply Scale charge

CO₂ emissions figure of 205 g/km

$$= 365.00$$

Output VAT due $365 \times 7/47 = \underline{\underline{£54.36}}$.

Electricity Bill:

Only recover the business element of the VAT incurred

i.e. $690 \times 7/47 \times 90\% = \underline{\underline{£92.49}}$

Solution 4

1. A

2. B

3. B

Factory	255,000
G/will	300,000
Warehouse	<u>(100,00)</u>
	455,000

Less ER	
455,000 $\frac{4}{9}$	<u>(202,222)</u>
	252,778

Inv Prop	<u>200,000</u>
	<u>452,778</u> – 10100 = 442,678
	C.T. Payable @ 18% £79682.

4. D

Paul (72,000 – 10000)	=	62,000
(43,875 – 5,715) x 8%	=	3053
(62,000 – 43,875) x 1%	=	<u>181</u>
		3233
Pauline (8900 – 5715) 8%	=	<u>255</u>
		<u>3488</u>

5. C

30.7.2009

Total Taxable T/O pm Yr 1 = 4,500 pm
i.e 12 x 4500 = 54,000 30/9/08
+ 6080 pm
<u>(4500)</u>
>1580pm x 8 <u>12640</u>
66640 31/5/09
<u>1580</u> 30/6/09
<u>68,220</u>

6. D

7. C

975,000 x 28% = 273,000.00
Less 7/400 (1,500,000 – 1025000)
<u>x 975,000</u>
1,025,000
<u>(7907.01)</u>
<u>265,092.99</u>

8. A

9. B

<u>(35,000 + 15,000) x 4.75 % =</u>	1187.50
2	
Less Int Pd	
35000 x 3% x 2/12	
30000 x 3% x 6/12	
15000 x 3% x 4/12	
	<u>(775.00)</u>
	<u>412.50</u>

Solution 4 (*Cont'd*)

10.	A	i) Use of Asset		£
		300 x 20 % x 6/12 =		30
		ii) Gift of Asset		
		MV when ACQ	20	
		Less Price paid	<u>(10)</u>	
			<u>10</u>	
		MV When 1 st provided	300	
		Less Benefits Assessed		
		08/09 300 x 20% 60		
		09/10 (as above) <u>30</u>	(90)	
		Less price paid	<u>(10)</u>	
			<u>200</u>	
		Assessed on Greater		<u>200</u>
				<u>230</u>

Solution 5

a) House 1

		£	
Rent Due (525 x 12)		6,300	
Less expenses			
Repairs	125		
Insurance (Year to 5/4/10)			
(360 x 3/12 + 400 x 9/12)	390		
Other allowance	<u>800</u>	<u>(915)</u>	4,985

House 2

		£	
Rent Due (390 x 6)		2340	
Less expenses			
Pre letting expenditure	600		
Insurance	300		
Rates	400		
Interest on loan	<u>1700</u>		
		<u>(3000)</u>	(660)

House 3

		£	
Rent Due (1100 x 6)		6600	
Add premium received	2500		
Less 2500 x 2% x (6-1)	<u>(250)</u>		
		<u>2250</u>	
		8850	
Less decorating costs-disallow as associated with the capital roof repair		=	
			8850

House 4

		£	
Rent Due (800x 12)		9600	
Less expenses			
Water rates	300		
Bad Debts	1600		
Wear and Tear Allowance (10% x 8000 – 300)	770		
Agent Fee	800		
Property Insurance	400		
Other allowable	<u>750</u>		
		<u>4620</u>	
			<u>4980</u>
Property Income assessable in Year			<u>18,155</u>

Solution 5 (Cont'd)

B

	<u>Profits</u>	<u>CA</u>	<u>NET</u>
Period ended 31.12.07	16,000	(9000)	7000
Y/E 31.12.08	19,000	(8000)	11,000
Y/E 31.12.09	22,500	(7500)	15,000
			£
2006/07	1.11.06 – 5.4.07		
	5/14 x 7000		<u>2,500</u>
2007/08	12 mte 31 .12. 07		
	12/14 x 7000		<u>6,000</u>
2008/09	CYB y/e 31.12.08		<u>11,000</u>
2009/10	CYB y/e 31.12.09		<u>15,000</u>
OVERLAP	1.107 – 5/4.07		
	3/14 x 7000 = 1500		

Solution 6

1	£	
<u>Freehold Premises</u>		
Proceeds	200,000	
Less acquisition cost	<u>(80,000)</u>	120,000
<u>Goodwill</u>		
Proceeds	50,000	
Less acquisition cost	<u>Nil</u>	<u>50,000</u>
		170,000
Less entrepreneurs relief (4/9 x 170,000)		<u>(75,556)</u>
		94,444
 Add		
Gain on Investment Property (not eligible for ER)		<u>50,000</u>
		144,444
 2		
Sale of House	£	
Sale proceeds	400,000	
Less acquisition cost	<u>(70,000)</u>	
	330,000	
Les PPR Exemption (W1)		
96/120 x 330,000	<u>(264,000)</u>	
Gain Chargeable		<u>66,000</u>
		210,444
Less Annual exemption		<u>(10,100)</u>
		<u>200,344</u>

a) Capital gains tax payable @ 18% = £36,062

b) The extra amount of relief is the lower of

- i) The amount of PPR already calculated
- ii) The amount of the gain accruing during the letting period
- iii) £40,000 maximum

Note : The letting relief cannot be used to create a loss, therefore ,if the relief calculated is greater than the gain, the gain is reduced to zero.

Solution 6 (*Cont'd*)

W1 PPR relief

	Total	Exempt	Chargeable
1.9.99 – 1.4.2002 Actual Occupation	31	31	
1.4.2002 – 31.8.03 Parts of 3 yrs for any reason	17	17	
1.0.03 - 1.9.04 Actual Occupation	12	12	
1.9.04 – 1.9.09 Last 3 years	60	36	
Rest of period			24
Chargeable as the property not re-occupied after the period of absence:			
	<u>120</u>	<u>96</u>	<u>24</u>

Solution 7

- 1) Five fundamental principles of ethics and communication outlined include
1. Integrity: - the need to be straight forward and honest in all professional and business relationships
 2. Objectives: - the need to be fair and not allow bias conflict of interest or undue influence of others.
 3. Professional competence & due care:-
The need and duty to maintain professional knowledge and skill at a level ensured to provide competent professional service.
 4. Confidentiality: - the need to respect the confidentiality of information acquired as a result of professional and business relationships
 5. Professional Behaviour: - the need to avoid any action that may discredit the profession

2)

Return filed before the due date of 31.1.11. Any enquiry must begin within 12 months of the date the return is filed (i.e. by 13 December 2011).

Return is filed after the due date of 31.10.10. Any enquiry must begin by the quarter day which follows the first anniversary of the date that the return is filed (i.e. by 31.1.2012)

The return is filed after the due date of 31.1.11. Any enquiry must begin by the quarter day which follows the first anniversary of the date that the return is filed (i.e. by 30 April 2012).

C)

If this is due to fraud or negligence – 31.1 in the 21st tax year following the year to which the assessments relates.

If no fraud or negligence – 31.1 in the 6th tax year to which the assessment relates.

2nd Examination: August 2010**Taxation II (NI)****Examiner's Report**General Comment

It is particularly disappointing to see students presenting themselves for examination with very obvious and devastating gaps in their knowledge of key elements of the syllabus. Students cannot expect to pass if they are unable to answer compulsory questions in the paper and this must be considered to be the reason for the 25% pass rate in this presentation.

Summary Stats

	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q5</u>	<u>Q6</u>	<u>Q7</u>	<u>TOTAL</u>
<u>Av Mark</u>	4	11	9	6	7	11	12	41
<u>No. Attempting</u>	<u>71</u>	<u>75</u>	<u>75</u>	<u>45</u>	<u>33</u>	<u>62</u>	<u>12</u>	

<u>MARKS RANGE</u>	<u>No. Achieving</u>	<u>%</u>
15-49	57	75
50-59	14	18
60+	<u>5</u>	<u>7</u>
	<u>76</u>	<u>100</u>

QUESTION 1

Only 71 out of the total of 76 candidates even attempted this compulsory question achieving an average mark of 4 and unbelievably 27 of the candidates who attempted the question scored 0 marks in it! This was a standard Corporation Tax Loss question which has appeared in the manual, on past papers and indeed on Pilot papers and cannot in any way be considered to be an obscure question.

QUESTION 2

This question was reasonably well answered by most candidates. The only items that caused some confusion were the new treatment of the lease payments for vehicles with higher CO2 emissions and confusion over how to deal correctly with mileage payments made to employees.

QUESTION 3

This VAT question was badly answered by a lot of students who simply did not know the rules for dealing with sales in EU, the differences between customers who were and were not VAT registered and Non EU sales. Partial exemption rules in part c of the question were only vaguely known and/or badly explained. Part d of the question in

particular was poorly answered with students not correctly identifying the difference in treatment of a Deemed supply or Deduction of business element of the expense only.

QUESTION 4

As always strong students score well on multiple choice questions and these questions aimed to test knowledge over a range of topics.

QUESTION 5

This was generally answered well by students in dealing with the rental income but a lot of students lost significant marks in part b in dealing with Basis of assessment commencement rules and deduction of the relevant Capital Allowances.

QUESTION 6

This question was selected by a large number of students and generally answered well. The significant problem was allowing Entrepreneurs Relief on the sale of the Investment Property.

QUESTION 7

For the small number of students electing to complete this question it was answered well. Some coped well with part a on the ethics but struggled to be specific on the dates in parts b and c