
Taxation II

Northern Ireland

2nd Year Examination

May 2010

Paper, Solutions & Examiner's Report



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Accounting Technicians Ireland

2nd Year Examination: Summer 2010 Paper

Paper : TAXATION II (Northern Ireland)

Wednesday 19th May 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 inserts are included with this paper.

- Tax Reference Material (NI)
- VAT 100 (Question 6)

SECTION A**All Question in this Section are Compulsory****QUESTION 1 (Compulsory)**

Jessica Smith has been employed since 1 April 2007 as a sales representative for a local company that sells laundry appliances to the hotel industry. Jessica receives a basic salary of £34,000 (gross) but receives also a generous bonus and benefits package in the year. Bonuses earned and received in the year are as follows:

Y/E 31 December 2008 £7,200 Received 31 March 2009

Y/E 31 December 2009 £7,800 Received 31 March 2010.

Benefits that are provided to her include:

- (1) A new diesel fuelled company car which the company were able to buy at a discounted fleet price deal £12,000. The recommended list price of a similar vehicle is £13,500 and has an official CO₂ emissions rating of 117 g/km. Jessica took delivery of the vehicle on the 6th August 2009.
- (2) Jessica pays for all fuel for the vehicle herself and prefers instead to claim for any business miles travelled in the year as the company re-imbursed these at a rate of 40p per mile travelled. Jessica submitted claims for 12,000 business miles covered since August.
- (3) As Jessica spends a lot of time out of the office she receives a round sum monthly allowance to cover out of pocket expenses of £200 per month. Her monthly receipts submitted in support of business expenses claim amounted to £2,000.
- (4) Since starting employment with the company Jessica has been provided with some of the company top selling products for use in her own home. These products cost £600 when new in April 2007 but Jessica was gifted them at the start of this tax year by the company even though they still had a market value of £150.
- (5) Jessica is also a member of the company's registered pension scheme. Under the terms of the scheme the company contributes a generous 10% of her basic salary each year. Her contribution is a further 4% on top of this.

Expenses that Jessica incurs in the year include:

- a monthly donation through the Payroll giving scheme of £20 to Cat safe- an approved charity for the protection of cats.
- Jessica continues to contribute £2,500 (net) to a personal pension scheme she started some time ago.

Jessica is otherwise independently wealthy as she is in receipt of the following investment income as follows:-

Bank Deposit interest received (net) £700.

Dividends received from UK companies £10,980. These were inherited from her grandmother's estate settled in May 2006.

PAYE deducted from salary and bonuses received in the year amounted to £6,000.

Required: Calculate any outstanding tax liability Jessica may have for 2009/10 and state by what date any such liability must be paid.

Total 20 Marks

QUESTION 2 (Compulsory)

Snowstorm Limited has been operating for some years now selling specialist ski equipment and apparel. It has two subsidiary companies which operate also within the UK. Accounts have been prepared for the year ended 31 March 2010 and show the following:

	£	£
Gross Profit		384,548
Add other income:		
Discount received	4,500	
Bank deposit interest (1)	1,800	
Dividends received from UK companies (net)	2,250	
Rental Income (net of allowable expenses)	12,000	
Grant for purchase of warehouse (2)	10,000	
Profit on sale of surplus assets (3)		<u>800</u>
		<u>31,350</u>
		415,898
<u>Less: Expenses</u>		
Wages salaries	56,000	
Director's remuneration	45,000	
Pension contributions (4)	13,700	
Rent and rates	25,000	
Light and heat	14,000	
Telephone (5)	2,250	
Motor and travel expenses	8,700	
Gift Aid donations paid (gross)	9,000	
Discount allowed	1,800	
Obsolete stock written off (6)	3,000	
Legal Fees	5,400	
Marketing expenses (7)	8,900	
Miscellaneous expenses (8)	10,700	
Depreciation	<u>12,050</u>	
		<u>215,500</u>
Net Profit for the year		<u>200,398</u>

- (1) This income would be determined to be income from a non trading loan relationship.
- (2) Snowstorm Limited applied for and received a grant in respect of purchase of the warehousing facility as it is situated in a newly designated development area.
- (3) This profit arose on the sale of a second hand van acquired at a bargain price of £5,000 on the 1st June 2009. The van, however, was not then considered large enough for purpose and was subsequently sold on for £5,800.
- (4) Pension contributions include contributions due but not yet paid of £700.
- (5) It was some time before a landline was installed in the warehouse and telephone charges for the year include an estimate £250 private use by one of the directors.
- (6) Another impulse buy in the year included an end of range line in expensive helmets. Poor safety reports received later meant stock was recalled but no compensation received for these items.
- (7) Marketing expenses include marketing expenditure of £1,500 incurred by the company in January before trading commenced. Although that was incurred six years ago it is only now that the relevant invoices were discovered.
- (8) Miscellaneous expenses include the following:

a. Christmas gifts to suppliers	750
b. Entertainment customers	870
c. Entertainment 5 staff annual dinner	500
- (9) Capital allowances for the accounting period have been agreed at £28,000.
- (10) The company has a trade loss carried forward amounting to £22,000.

Required: You are required to calculate the Corporation Tax liability for Snowstorm Limited for the year ended 31 March 2010 and state on or before what date any such liability must be paid.

Total 20 Marks

QUESTION 3 (Compulsory)

John and Martha Evans married on the 1 April 2009 and moved into their new home in May. As a consequence, both John and Martha have had an “asset clear out” and are now concerned that they will have a large capital gains tax liability to pay.

Details of the disposals John has already made in the year are as follows:-

- (1) On 1st May 2009 John sold a holiday bachelor pad to his younger brother for a bargain price of £35,000 even though the market value at the time was £100,000. John had bought the property in 2001 for £20,000 and paid agent’s fees of £750 and solicitor’s costs of £500. In 2005 John paid £15,000 to extend the property to include a small gym and games room.
- (2) On 15th May he sold a piece of sculpture for £6,500 which he had bought at an auction some years earlier for £5,500.
- (3) On 22nd June he sold his vintage classic Morgan sports car for £58,000. The car had been bought in July 1996 for £35,000 (net of auction fees £3,000).
- (4) On 2nd October he sold an Italian painting for £5,800 which had cost £6,700.
- (5) On 15th June, John sold four acres out of a six acre plot of land for £40,000. The whole plot had been purchased for £12,000 in 2003 at a time when land prices were still reasonable. At the time of sale the unsold two acres had an agreed market value of £25,000.

Required:

- Calculate the CGT liability arising for John for 2009/10.
- State the date on or before any Capital Gains Tax liability must be paid.

Martha’s only main asset to sell would be some shares that she acquired some years earlier. She would consider selling some of these before the end of the tax year but does not wish to pay any tax on the sale. She also has Capital losses brought forward from previous years from sales of other assets of £12,200 but is unsure whether or not this can be used this year. Details of these shares are:

Homely Bits Plc	Number of shares	Cost
		£
6 April 1998	8,000	7,500
13 December 1999	6,000	5,820
10 March 2000	3,500	4,000

It is estimated that these shares can currently be sold for £5.75 per share.

Building Projects Plc	Number of shares	Cost
		£
15 June 1997	1500	37,500
16 July 2002	1000	27,000

As a consequence of the downturn in the housing market these shares could only currently be sold for £10 per share

Required:

Calculate the CGT liability if Martha disposed of all shares held before the end of this tax year.

How would the position change if the only shares sold were 13,000 of the Homely Bits Plc shares.

Total 20 Marks

SECTION B

Answer ANY TWO of the FOUR questions in Section B

QUESTION 4

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

Requirement

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

N. B. Each part carries 2 marks.

Total 20 Marks

Candidates should answer this question by ticking the appropriate boxes on the special green answer sheet which is supplied with the examination paper.

[1] Gerry, aged 80 has pension income (gross) in 2009/10 of £13,950 and bank interest received (net) of £6,400 and dividends received (net) of £1,800. He makes an annual gift aid donation (net) £120. Gerry's outstanding tax liability for the year is:

- (a) £952
- (b) £862
- (c) £967
- (d) £NIL

[2] Paul commenced trade on the 1st July 2005 and prepared his first accounts to 31st August 2006 and annually thereafter. Upon reaching retirement age he ceased to trade on the 31st Dec ember 2009 and his results have been as follows:-

Period ended 31 August 2006	£7,750
Year ended 31 August 2007	£11,500
Year ended 31 August 2008	£13,750
Period end 31 December 2009	£16,000

His assessment to tax for his final year's trading will be:

- (a) £ 3,875
- (b) £ 12,000
- (c) £ 16,000
- (d) £ 12,125

[3] Baggage Ltd is registered for VAT and all its sales are standard rated. Net sales for this quarter amounted to £240,000. Baggage Ltd offers its customers a 5% discount for prompt payment (within 7 days) and this discount is estimated to be taken up by 50% of its customers. Output Vat to be declared for this quarter amounts to:

- (a) £ 39,900
- (b) £ 40,950
- (c) £ 42,000
- (d) £ 35,745

QUESTION 4 (*Cont'd*)

[4] Moor Ltd has in the year made VAT inclusive standard rate sales of £150,000. The company incurs standard rate expenses inclusive of VAT of £58,750. If Moor Ltd were to register for the flat rate scheme (at a rate of 9% in the relevant industry) there would be a VAT saving of:

- (a)** NIL – They would not be eligible to apply as they are a limited company
- (b)** NIL – They would not be eligible to apply as they are outside the annual taxable turnover limits.
- (c)** £90
- (d)** £2,469

[5] Barry incurs a capital loss on the disposal of an asset in 2009/10. This capital loss must be:-

- (a)** carried back primarily against Barry's capital gains of 2008/09
- (b)** set off primarily against any other capital gains arising to Barry in 2009/10
- (c)** utilized first against any other trading profits arising to Barry in 2009/10
- (d)** carried forward against any capital gains arising to Barry in future years.

[6] Moyra enters into a leasing contract for a motor car in May 2009. The vehicle costs £18,000 with CO₂ emissions rating of 168g/km. Rental payments amount to £7,800 pa. The amount of rental charges disallowed in the year amounts to:

- (a)** £1,300
- (b)** £1,170
- (c)** £6,500
- (d)** £6,630

[7] Diane commenced trading on the 1st May 2009. In the first year of trade she made the following purchases:

- i. Plant and machinery for the rented factory £125,000
- ii. Office furniture and equipment £30,000
- iii. A car with CO₂ emissions rating 158g/km £11,000

If Diane claims full Annual Investment Allowance (AIA) in the year how much expenditure is still eligible for further allowances:

- (a)** £6,000
- (b)** £NIL. No further allowances available
- (c)** £116,000
- (d)** £41,000

[8] Lyness Ltd, a sales distribution company, makes up its first set of accounts for a period of 18 months from 1st January 2008 to 30th June 2009. For Corporation Tax purposes this will be assessed as follows:-

- (a)** The period to the end of the period of account i.e. of 18 months to 30th June 2009
- (b)** The period 6 months to 30th June 2008 followed by the 12 months to 30th June 2009
- (c)** The period of 12 months to 31st December 2008, followed by the next 12 months (6 month end 30th June 2009 plus 6 month end 31st December 2009)
- (d)** The period of 12 months to 31st December 2008, followed by the period of 6 months to 30th June 2009

QUESTION 4 (*Cont'd*)

[9] Where a close company makes a loan of £25,000 to one of its participators in the tax year, the tax position is as follows:-

- (a)** The loan can be ignored so long as it is repaid by the participator within 12 months;
- (b)** It will be allowed as a normal deduction in the company's corporation tax computation;
- (c)** The Company has to make a payment under S419 at a rate of 20% on the loan, being the tax payable on the amount of the loan;
- (d)** The company has to make a payment under S419 at a rate of 25% on the loan, being the tax payable on the amount of the loan.

[10] On 1 September 2002 Mark granted a lease to Helen for a period of 20 years. Helen paid a premium of £12,000. On 1 September 2009 Helen granted a sub-lease to Anne for a period of 5 years. Anne paid a premium of £16,000. How much business property income will be assessable on Anne in 2009/2010.

- (a)** £12,860
- (b)** £14,720
- (c)** £1,280
- (d)** £1,860

Total 20 Marks

QUESTION 5

Matt has recently been made redundant and wishes to start up business to undertake small building projects and maintenance repair for domestic and rental properties. He hopes to involve some of his other contacts in the industry who also find themselves out of work but is nervous about employing them on a full time basis until he establishes how much work is available.

Required

Draft a memo to Matt outlining the following:

1. List the criteria which HMRC may use to determine whether persons are self employed or employed.
2. Outline the criteria that sub-contractors must satisfy to qualify to receive payments gross.
3. If sub-contractors cannot satisfy these criteria, what obligations Matt may have as a contractor with regards to payments made to sub contractors.
4. Show how the tax deduction is calculated for the following payment to a sub contractor who has been verified as a "20% net sub contractor".

	£
Materials	450
Labour	340
VAT	<u>138</u>
	<u>928</u>

Total 20 Marks

QUESTION 6

Shipshape Limited operates a UK based business for the specialist maintenance and restoration of old boats. The company accounts for VAT on the normal invoice basis. The following information relates to transactions undertaken in the quarter ended 31 March 2010. All figures are inclusive of VAT where applicable.

SALES/SERVICES (All figures are exclusive of VAT where applicable.)

	£
Sales/services in UK (Note 1)	190,000
Sales/services to EU VAT registered customers	64,000
Sales/services to EU customers that are not VAT registered	5,000
Sales/services to customers in Canada	9,000

PURCHASES & EXPENSES (All figures are exclusive of VAT where applicable.)

Purchase of materials from UK suppliers	83,000
Purchase of materials imported from EU	40,000
Purchase of equipment from UK	45,000
Purchase of Motor Car	14,000
Purchase of company van (Note 2)	18,000
Wages & Salaries	34,500
Rent (Note 3)	2,500
Repairs	3,200
Heat & Light	1,800
Other standard rate expenses (Note 4)	9,700
Bad Debt written off (Note 5)	12,500

Note

- Sales/services carried out in the UK are all standard rated. The company offers discount of 5% for prompt payment and it is estimated that this will be taken up by 70% of customers. No such discount is offered to other customers.
- A new company van was purchased at a cost of £18,000 (net of a trade in allowance on the old van of £6,500)
- The "option to tax" has been exercised by the landlord.
- Standard rate expenses include:

Cost of food and drink at new product launch	1,800
Entertaining customers	2,750
- Bad debts written off as irrecoverable debts this quarter are in respect of two UK customers for invoices (inc VAT) of £5,000 (due for payment November 2009) and £7,050 (due for payment September 2009).

Other:

No account has been taken for an item of stock that was taken and given as a gift to a customer. The cost to the company was £300(including VAT). The company has a normal mark up on such products of 20%.

Required

- Calculate the VAT payable by (or repayable to) Shipshape Ltd for the Quarter Ended 31 March 2010.
Complete all relevant entries on the VAT100 form and state the due date for payment of any liability the company may have.

Total 20 Marks

QUESTION 7

- (a) John Quinn commenced self employment on the 1 June 2009 as a plumber having just finishing his course in the local technical college. His tax adjusted profits (before capital allowances) have been:

Period ended 31st March 2010	£54,000
Year ended 31 st March 2011	£65,000

Before he started and during the first months of trade John purchased and sold some equipment as follows:-

		£
17 May 2009	Purchased plant & equipment	21,500
3 June 2009	Purchased a short life asset	1,600
3 June 2009	Purchased a works van	21,000
14 June 2009	Purchased a motor car (note 1)	12,000
1 April 2010	Sold equipment (original cost £750)	500
1 May 2010	Purchased equipment	42,000
21 September 2010	Purchased furniture	15,000
16 December 2010	Sold short life asset	600

Note: the car purchased on June 14th 2009 will be used 25% for business purposes. The car has CO₂ emissions of 135g/km.

Required

Calculate the adjusted trade profits (after capital allowances) for the two periods of accounts ended 31 March 2011.

12 Marks

- (b) John is currently registered for VAT and accounts for VAT in the normal manner. However, he has been talking to some of his friends recently and has heard about two particular special schemes that may reduce the administrative burden of VAT i.e. The Flat Rate Scheme and The Cash Accounting Scheme. He would like you to briefly outline how the schemes work and any conditions he must satisfy before he could join such a scheme.

8 Marks**Total 20 Marks**

2nd Year Examination: Summer 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.

Solution 1

**Jessica Smith
Income Tax computation
2009/10**

Earned Income	£	N/S	N/Div	Div	
Income from Employment					
- Salary	34,000	34,000			
- Bonus	7,800	7,800			
- Benefits (w1)	<u>4,230</u>	<u>4,230</u>			
	46,030	46,030			
Less allowable deductions	(2000)	(2000)			
Expenses					
Occupational Pension					
Contributions (4%)	(1,360)	(1,360)			
Payroll	<u>(240)</u>	<u>(240)</u>			
	42,430	42,430			
Unearned Income					
Bank Deposit Inc (⁷⁰⁰ / _{0.80})	875		875		
UK Dividends (¹⁰⁹⁸⁰ / _{0.90})	<u>12,200</u>			<u>12,200</u>	
STI	55,505	42,430	875	12,200	
Less PA	<u>(6,475)</u>	<u>(6,475)</u>			
Taxable Income	<u>49,030</u>	<u>35,955</u>	<u>875</u>	<u>12,200</u>	

Solution 1 (Cont'd)

Basic Rate Band		37,400
Add Personal Pension Cont. ($\frac{2500}{0.80}$)		<u>3,125</u>
Extended Basic Rate Band		40,525
Taxable Payable		

N/S	35,955	x 20%	= 7,191.00
S(N/Div)	875	x 20%	= 175.00
S(Div)	<u>3,695</u>	x 10%	= 369.50
	40,525		
S(Div)	<u>8,505</u>	x 32½%	= <u>2764.12</u>
	49,030	I.T Borne	10,499.62

Less Tax Credit		
UK Dividends		(1,220.00)
Bank Dep Int		(175.00)
PAYE		<u>(6,000.00)</u>
O/S I.T. Liability		<u>3,104.62</u>
Due for payment on or before 31 January 2011.		

Solution 1 (Cont'd)Workings

1 Benefits

1) Car Benefit £
 Based on recommended 1st price
 $13,500 \times (10\% + 3\%) = 1,755 \times 8/12$ 1,170.00

2) Fuel Benefit

In absence of full fuel rate allowances students will be awarded marks for assessable income as follows:

Reimbursement received	12,000 x 40p	=	4800
Less Approved rates	10,000 x 40p	=	4000
	2,000 x 25p	=	<u>500</u>
			<u>4500</u>
			300

3) Round sum allowance taxable in full. Expenses (supported by invoice) of £2,000 may be claimed 2,400.00

4) Transfer of Asset

Greater of	1) MV when acquired	150
	Less price paid	-
		<u>150</u>
	2) MV when 1 st provided	600
	Less benefits assessed	
	2007/08 600 x 20%	(120)
	2008/09 600 x 20%	<u>(120)</u>
		360
	Less price paid	-
		<u><u>360</u></u>

Assessed on greater	<u>360.00</u>
Assessable Benefits	<u><u>4,230.00</u></u>

Solution 2

Snow Storm Limited
Corporation Tax Computation
Y/E 31.3 2010

	£
Sch D 1 (Trading Income as below)	146,968
Sch D 111	1,800
Sch A	<u>12,000</u>
	160,768
Less changes on income	
Gift Aid donation (Gross)	<u>(9,000)</u>
PCTCT	151,768
Add F11 (²²⁵⁰ / _{0.90})	<u>2,500</u>
Profits	<u>154,268</u>

C. T Payable : As Snowstorm Limited have two subsidiary companies: Upper and Lower limits are reduced to £100,000 & £500.00 respectively.

	£
CT Payable 151,768 x 28 %	42,495.04
Less marginal relief $7/400 \times (500,000 - 154,268) \times 151,768$	<u>(5952.26)</u>
	154,268
Corporation Tax Payable	<u>36,542.78</u>

Note

Profit on sale of van would be exempt from Capital Gains as it is a wasting chattel whose proceeds are less than £6,000.

- b) The due date for payment of the Corporation tax liability will be on or before 1 January 2011.

Solution 2 (Cont'd)2 Snowstorm Limited

Net Profit per A/Cs		£	200,398
Less Income assessable elsewhere			
Bank Deposit Int	1,800		
Dividends received	2,250		
Rental Income	12,000		
Grant for Workhouse	10,000		
Profit on Sale	800		
			<u>(26,850)</u>
			173,548
<u>Add Disallowable Expenses</u>			
Gift Aid Donations	9,000		
Pension contributions accrued	700		
Entertainment customers	870		
Depreciation	<u>12,050</u>		
			<u>22,620</u>
			196,168
Less Capital allowance			(28,000)
Balancing charge on van			800
Sch D1			<u>168,968</u>
Less losses carried forward			<u>(22,000)</u>
			<u>146,968</u>

Solution 3

John

1	Proceed (Deemed)		£	100,000
	Less allowable expenditure			
	Cost of acquisition	20,000		
	Individual costs Agent fees	750		
	Solicitors fee	500		
	Cost of extension	<u>15,000</u>		
				<u>(36,250)</u>
	Chargeable Gain			<u>63,750</u>
			£	
2	Sale proceeds		6500	
	Less Cost		<u>(5500)</u>	
	Chargeable gain		<u>1000</u>	
	Limited to $\frac{5}{3}$	(6500 – 6000) =		<u>£833</u>
3	Car – an exempt asset	No gain chargeable		
4	D Sale proceeds		£6,000	
	Less cost		<u>(6,700)</u>	
	Allowable loss		<u>(700)</u>	
			£	
5	Proceeds		40,000	
	less cost 12,000 x	<u>40,000</u>		
		40,000 + 25000		<u>(7385)</u>
	Chargeable gain			<u>32,615</u>
	<u>John Summary for the year</u>		£	
	1. House		63,750	
	2. Sculpture		833	
	3. Car		-	
	4. Painting		(700)	
	5. Land part disposal		<u>32,615</u>	
			96,498	
	Less Annual exemption		<u>(10,100)</u>	
			<u>86,398</u>	

CGT payable @ 18% £15,551.64 by 31 Jan 2011

Solution 3 (Cont'd)**Martha
1**

		£	
Sale of Sales Homely Bits PLC (Estimated proceeds) (17500x 5.75)	100,625		
Less Cost	<u>17,320</u>		
Chargeable Gain		83,305	
Sale of shares Building Projects PLC (2500 x 10)	25,000		
Less Cost	<u>64,500</u>		
Allowable Loss		(39,500)	

Martha: Summary

	£
Chargeable Gains	83,305
Less allowable capital losses c/y	(39,500)
Capital losses ^{b/f}	(12,200)
Annual Exemption	<u>(10,100)</u>
Taxable Gains	<u>21505</u>

CGT liability @ 18% = £ 3870.90 payable 31 January 2011

2

If Martha only sold 13,000 of Homely Bit shares her CGT liability would be significantly reduced as follows: -

		£
Sale of shares (13,000 x 5.75)		74,750
Less Cost	<u>13000 x 5.75</u> 17500	(12,866)
Chargeable Gain		<u>61,884</u>

	£
Chargeable Gain in year	61,884
Less allowable losses	(39,500)
Capital losses b/f	(12,200)
Annual exemption	<u>(10,100)</u>
	<u>84</u>

This would save CGT of (21505 – 84) x 18% £3855.78



Solution 4

1 Gerry

			£
Personal Allowances			9640
ST 1	13950		
	8000		
	2000		
	23950		
	<u>(150)</u>		
½	(23800 – 22900)		<u>(450)</u>
			<u>9190</u>
23950-	9190 =		
Taxed	4760 x 20%	=	952
	8000 x 20%	=	1600
	2000 x 10%		<u>200</u>
			2752
Less Tax credits			(1600)
			<u>(200)</u>
			<u>952</u>
			Answer A

2 Paul

			£
2005/06 Actual	1.7.05 – 5.4.06	9/14 x 7750	4982
2006/07 12m to A/c date	1.9.05 – 31.8.06	12/14 x 7750	6643
2007/08 CYB Y/E	31.8.07		71500
2008/09 CYB Y/E	31.8.08		13750
2009/10 LAST: Actual	1.9.08 – 31.12.09		16000
Less overlap			<u>(3875)</u>
			<u>12125</u>
Overlap 1.9.05 – 5.4.06 =	7/14 x 7750 =	3875	
			Answer A

3 240.000 x 0.95 x 0.175 = 39,900 Answer A

4	150,000 x 9% =		13500
	Normal	150,000	7/47
			22340
	Less	58750	7/47
			<u>8750</u>
			1.3590
			£90 Saving
			Answer C

5 B

6 B (15% x 7800)

7	C	General Pool	
		Not eligible	11000
		Qualifying Assets	
		(125,000 + 30,000 – 50,000)	<u>105,000</u>
			<u>116,000</u>

8 D

Solution 4 (Cont'd)

9 D

10 A

Premium on sub lease	16,000
Less (6,000 x 2% x (5-1))	<u>(1,280)</u>
	14720

Less relief for Premium paid on head lease
12,000

Less 12,000 x 2% x (20-1) <u>(4560)</u>	
7440 x ⁵ / ₂₀	<u>(1860)</u>
	<u>12860</u>

SOLUTION 5

Company Name Here

Memo

To: Matt
From: A. N Technician

Date: 03/08/2010

Re: Self Employment and **Construction Industry Scheme**

Following your recent queries I am happy to advise as follows:-

1. Employment versus Self Employment (As per manual)**Factors to Consider**

Deciding whether an individual is employed or self employed should be considered on a case by case basis. Employment is considered a "contract of service" whereas self employment is considered a "contract for service". In order to determine which type of contract exists there are a range of factors that should be considered. These factors will help determine if a trade is being carried on, however they should be applied with caution.

These are now set out:

- a. The **degree of control** being exercised over the person carrying on the work. An employee will generally be under the control of their manager or supervisor and will have limited control over the type of work they do. In comparison, a self employed person can usually decide whether he/she will take on a job.
- b. Whether an individual has to **provide their own equipment** can indicate whether they are under a contract of service (employed) or a contract for service (self employed). A self employed person usually provides their own equipment to enable them to carry out their work. For example, a self employed accountant will use their own computer, whereas an employed accountant will use the computer provided by their employer.
- c. Whether an individual has to **hire his own helpers** to carry out the work. A self employed person usually provides his own workers to perform the work whereas an employed person is provided with staff by his employer.
- d. The degree of **financial risk** the individual incurs can indicate whether an individual is employed or self employed. An employee usually receives a salary on a weekly/monthly basis irrespective whether their employer makes a profit in that month. A self employed person is usually paid on a job by job basis and may make losses as well as profits.

SOLUTION 5 (Cont'd)

A self employed person can also make a profit from a job by exercising sound management.

- e. Whether an individual is entitled to **holiday and sick pay** can indicate whether an individual is employed or self employed. An employed person is generally entitled to holiday and sick pay as part of their employment contract. In contrast if a self employed person is sick or on holidays then they are not entitled to any payment from their customers.
- f. If an individual works for just one person **exclusively** and this person must provide them with work, they are considered to be under of contract of service i.e. employed. If they can refuse work and if they work for a number of different people then they are more likely to be considered to be in a contract for service i.e. self employed

Whether assessing whether an individual is employed or self employed it is important to consider all the above factors in order to get a balance view.

- 2. The construction industry scheme (CIS) may apply when a contractor makes payments to a subcontractor under a contract relating to construction operations. Subcontractors who rank as employees are dealt with via the PAYE system as usual, but it has proved necessary to introduce a special scheme in relation to subcontractors who do not rank as employees, so as to counter tax evasion. The main features of the CIS are as follows:

Subcontractors are required to register as such with HMRC. They may apply to be paid gross by the contractors for whom they work or they may register to be paid under deduction of tax. To qualify for gross payment, a subcontractor must be running a business which satisfies a number of criteria. These are:

- (i) it is run in the UK with a bank account (The "business test")
- (ii) it has a construction turnover of at least £30,000 p.a. (the "turnover test")
- (iii) it must have complied with all of its tax obligations (the "compliance test").

3. If your subcontractor cannot benefit from gross payment status, you must deduct income tax.

4. Tax deduction $20\% \times (928 - 450 - 138) = £68.00$

SOLUTION 6

Shipshape Ltd

a

Sales/Services	Gross	VAT	NET
Output VAT	£	£	£
Sales m UK (190,000 x 0.95 x 17½%)	212,087.50	31587.50	180,500.00
Sales/services to EU VAT registered	64,000.00	-	64,000.00
Sales/services to EU VAT non VAT registered	5,875.00	875.00	5,000.00
Sales/services in Canada	9,000.00		9,000.00
Sale of Van	6,500.00	968.08	5,531.92
Gifts to customers (300 x 120 x 7/47)	<u>360.00</u>	<u>53.62</u>	<u>306.38</u>
	297,822.50	33,484.20	264,338.30
VAT on Imports From EU	<u>47,000.00</u>	<u>7000.00</u>	<u>40,000.00</u>
	<u>344,822.50</u>	<u>40,484.20</u>	<u>304,338.30</u>

Purchased Expenses

Input VAT	£	£	£
Purchases of Materials	97,525.00	14,525.00	83,000.00
Purchase of Equipment	52,875.00	7,875.00	45,000.00
Purchase of Motor Car	14,000.00	-	14,000.00
Purchase of Company Van	28,148.94	3,648.94	24,500.00
Rent	2,937.50	437.50	2,500.00
Repairs	3,760.00	560.00	3,200.00
Heat & Light	2,115.00	315.00	1,800.00
Other Standard Expenses (9700 – 2750)	8,166.25	1,216.25	6,950.00
Bad Debt Relief (> 6 months)	<u>7,050.00</u>	<u>1,050.00</u>	<u>6,000.00</u>
	216,577.69	29,627.69	186,950.00
EU Acquisitions	<u>47,000.00</u>	<u>7,000.00</u>	<u>40,000.00</u>
	<u>263,577.69</u>	<u>36,627.69</u>	<u>226,950.00</u>

B

VAT 100

VAT Due

£

Output Tax

40,484.20

Input Tax

(36,627.69)

VAT Due

3856.91

SOLUTION 7

A

John Quinn

	Profit		Adjusted	
	Before	Allowances	Trade	
	<u>Allowances</u>	<u>Claimed</u>	<u>Profit</u>	
P/C 31.3.2010	54,000	(43,140)	10,860	
Y/E31 .3.2011	65,000	(52,260)	12,740	

Allowance Claimed

10 m/e 31.3.2010	General Pool	Short Life Asset	Single Assset Pool (Private use Car)	Claim	
WDV B/F	Nil				
Add hours not qualifying for AIA or FYA					
Private Use Car			12,000		
Expenditure eligible for AIA and FYA					
Equipment (1) 21,500		1,600			
Van <u>21,000</u>					
42,500					
Less AIA (Max 10/12 x 50,000) <u>(41,667)</u>		<u>Nil</u> 1600	<u>NIL</u> 12,000	41,667	
833					
Less WDA (20% x 10/12)	Nil		(2000) x 25%	500	
Less FYA (40%) not pro rated <u>(333)</u>		(640)		973	
	<u>500</u>				
WDV	<u>500</u>	<u>960</u>	<u>10,000</u>		
				<u>43,140</u>	

(1) Expenditure incurred pre –trading is treated as if incurred on the first day of trading.

SOLUTION 7 (Cont'd)

Y/E 31 March 2011	General Pool	Short Life Asset	Single Pool Private Use car	Claim	
WDV B/F	500	960	10,000		
Add hours qualifying for AIA but not FYA (note 2)					
Equipment 42,000					
Furniture 15,000					
57,000					
Less AIA (50,000)				50,000	
	7,000				
Less Disposal	(500)	(600)			
	7000	360	10,000		
Balancing Allowance		(360)		360	
Less WDA (20%)	(1400)		(2000) x 25%	500	
WDV c/F	5600	NIL	8,000	1400	
				52,260	

Note 2:

Purchase of plant and machinery after 5 April 2010 are eligible for AIA and WDA at 20% but are not eligible for the temporary FYA.

SOLUTION 7 (*Cont'd*)

B

Flat –Rate Scheme

The flat rate 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, they apply a flat rate percentage to their VAT inclusive turnover. The percentage applicable depends on the nature of the industry; however it is less than the standard rate as it takes into account that the trader is not reclaiming VAT on purchases. The advantage of this scheme is easier record keeping and more certainty about the amount of VAT payable. To join the scheme a trader must have annual taxable turnover not exceeding £15,000 (exc VAT). Their annual total turnover, including exempt and non taxable income, must not exceed £187,500 (excluding VAT).

Cash Accounting Scheme

This scheme allows traders to account for VAT when an invoice is paid and the cash is received. This differs from the standard scheme as described above, which requires traders to pay VAT or HMRC on the basis of the issue of an invoice. The standard scheme imposes a cash flow burden on some traders as in some cases they have to pay the output VAT to HMRC before they have received the money from the customer. In the cash accounting scheme, the date of payment of the invoice determines the VAT quarter in which the payment must be accounted for. This is beneficial to the traders especially as they will not have to pay VAT on bad debts as these invoices will never be paid.

The treatment of VAT on purchases also differs, traders using the cash accounting scheme can only reclaim VAT on their purchase when they have paid their suppliers. This is a disadvantage to traders who purchase most of their goods of services on credit. Using the standard scheme, traders are allowed to reclaim VAT on invoices received, even if these have not been paid for.

This scheme can only be used by traders whose taxable supplies are not expected to exceed £1,350,000 over the next tax year. A trader cannot join the scheme if they are not up to date with their VAT returns and payments or if they have been convicted of a VAT offence or charged a penalty for VAT evasion in the last 12 months.

A trader's must withdraw from the cash accounting scheme if their taxable supplies exceed £1,600,000 million in the last 12 months.

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

This year's paper was specifically designed to exam the core elements of the syllabus and as directed concentrated on the major subject areas. Students who prepared on this basis performed well but it is still disappointing that some students present themselves for examination with little or in some cases no knowledge of key topics such as Corporation Tax and Capital Gains Tax. Overall results indicate a wide variation but a very pleasing performance from those at the top end of the mark spectrum.

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>	12	10	12	8	11	13	11	55
<u>No. Attempting</u>	<u>238</u>	<u>238</u>	<u>238</u>	<u>130</u>	<u>78</u>	<u>179</u>	<u>89</u>	

<u>MARKS RANGE</u>	<u>No. Achieving</u>	<u>%</u>
21-49	85	36
50-59	53	22
60+	<u>100</u>	<u>42</u>
	<u>238</u>	<u>100</u>

QUESTION 1

This question was well answered by most candidates with most performing above pass mark for the question. Key areas to be dealt with here were the treatment of main benefits in kind such as travel expenses, car benefit and the additional 3% supplement for the diesel car. A lot of students did not correctly differentiate between the treatment of occupational and personal pension payments.

QUESTION 2

It was disappointing to see for some students that no preparation whatsoever had been made on a basic Corporation Tax computation with an alarming 18% of candidates scoring less than 5 marks in this question. Key issues here were students incorrectly adjusting for private use of company assets, identifying that the company had two associates which divided limits by three and thereby brought Marginal Relief calculations into play.

QUESTION 3

A lot of students scored well on this question in particular dealing with the sale of shares in part two of the question. It was disappointing to see that a lot of students did not seem to know the very basic rules for asset disposals in part a of the question concerning chattels rules, part disposals etc

QUESTION 4

As always some students struggle with multiple choice questions and the average score in this question reflected this with an average score of 8 marks. Students must be aware there is no negative marking in a multiple choice question therefore students MUST answer all 10 questions. The correct answer is there even at a guess!

QUESTION 5

This question was only attempted by 33% of people but those that answered it answered it well. Some students however got confused between the employment versus self employment as per manual and the badges of trade.

QUESTION 6

The VAT question was popular with a lot of students with some 75% electing to do this question. Some students identified a comment in the question which may have confused as to whether or not figures were inclusive or exclusive of VAT. No student was disadvantaged as a consequence of this and marks were awarded so long as students correctly identified if items were standard rate, zero rate or exempt. Similarly, student received marks if they took VAT at 15% so long as there was a consistency of treatment throughout.

QUESTION 7

This question was reasonably well answered by those who selected it. However, in particular, a number of students seem to struggle with layout of Capital Allowances comp in part a and did not appear to realise that both AIA and WDA would be restricted in a 10 month period of account. A large number of students who answered the question seemed not to understand the operation of the Flat Rate Scheme for VAT or were unable to explain how it worked.