Accounting Technicians Ireland

Taxation II
Northern Ireland

Autumn 2009

Paper and Solutions

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.

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.

NEW SYLLABUS
Accounting Technicians Ireland
(Formerly The Institute of Accounting Technicians in Ireland)

2nd Year Examination: Autumn 2009
Paper: TAXATION II (Northern Ireland)

Tuesday 18th August 2009 – 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, 2008. The provisions of the Finance Act, 2009 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.

- **Form SA 100 (and SA102) [QUESTION 1]**
- **Multiple Choice Answer Sheet [QUESTION 6]**
- **Tax Reference Material (NI)**

SECTION A

Answer QUESTION 1, QUESTION 2 and QUESTION 3 *(All compulsory)* **in this Section**

QUESTION 1 (*Compulsory)*

Adam Wasp is a UK resident taxpayer based in Aberdeen who was born on 4th July 1960. Details of his Income Tax position for the tax year 2008/09 are as follows:

(1) Adam is the Production manager for a metal engineering plant: Bee-Sting Ltd. Adam earns an annual salary of £36,000 from this employment.
(2) Bee-Sting Ltd also made pension contributions of £1,500 into the company's pension scheme for Adam's benefit during the tax year ended 5th April 2009.
(3) The company provided Adam with a mobile telephone and a laptop computer for his personal use costing £1,200 on 6th April 2008.
(4) The company paid £650 into a private medical scheme for Adam during 2008/09.
(5) Adam was provided with a company van at the beginning of the tax year. The company also paid for all diesel in respect of the van.
(6) On 5th October 2008, as part of his re-location to Belfast, this van was changed to a company car which cost the company £10,980 at this date. This 2000cc car had a list price when new of £16,000. The car had a petrol engine and a CO_2 emissions rate of 156g/km. The company also stopped providing Adam with fuel on this same date, instead choosing to reimburse him for all business mileage travelled at a rate of 15p per mile. Adam claimed this allowance on the 3,000 business miles he travelled between 5th October 2008 and 5th April 2009.
(7) On 5th October Adam was provided with a car parking space costing the company £1,150 per year.
(8) The company also paid Adam's relocation expenses of £13,130 on 5th October 2008.
(9) During the year £12,000 was deducted from Adam's salary under PAYE.
(10) Adam also received £800 (net) from the RTZ Bank on a 90-d ay rolling deposit account and received dividends from FAB Oil of £270 (net) in 2008/09.
(11) Adam paid his first tax payment on account, of £600, on 31st January 2009 and has a further £600 to pay on 31st July 2009.

Requirement

(a) Compute the Income Tax position of Adam Wasp for the tax year 2008/09 showing clearly the liability payable and any amounts payable/repayable in respect of the tax year on the assumption Adam makes all payments on account on the correct dates. *Candidates may ignore National Insurance Contributions.*

15 Marks

(b) Complete the relevant sections of Adam's SA100 2009 Tax Return Form and supplementary return SA102.

5 Marks

Total 20 Marks

N. B. *Form SA 100(and SA102) is supplied with the examination paper for the purpose of answering this question.*

QUESTION 2 *(Compulsory)*

You are an auditor for HM Revenue & Customs. You have been given the annual VAT Return of FIDDLESTICKS Ltd. together with the company's annual financial statements. After an initial review by your line manager she is concerned that the returns are not correct and asks you to prepare an estimated return based on the accounts.

VAT Return year ended 30th September 2008

	Net
	£
VAT on sales (Box 1 of the VAT return)	123,911
VAT on purchases (Box 4 of the VAT return)	100,001
Net payable (Box 5 of the VAT return)	23,910
Total goods to other EU countries (included in sales)	250,000
Total goods from other EU countries (included in cost of sales)	300,000

FIDDLESTICKS Ltd. accounts for the year ended 30th September 2008 and 2007

Profit & Loss for the year ended 30th September 2008

	Notes	Y/E 2008	Y/E 2007
		£	£
Sales	(1)	1,128,000	750,000
Cost of sales	(2)	763,000	486,000
Gross profit		365,000	264,000
Other expenses	(3)	257,000	200,200
		108,000	63,800
Dividends received		5,000	4,000
Profit before tax		113,000	67,800
Taxation		30,000	17,150
Profit after tax		83,000	50,650
Dividend paid		12,000	10,000
Profit for year		71,000	40,650

Balance sheet (extract) at 30th September 2008		£	£
Fixed assets	(4)	299,000	179,700
Current assets:			
Stock		100,000	85,000
Debtors		210,000	175,000
Bank and cash		77,000	67,100
		387,000	327,100
Creditors:			
Trade creditors		105,000	66,000
Other creditors		227,200	158,000

QUESTION 2 *(Cont'd).*

	332,200	224,000
Net assets	353,800	282,800
Capital and reserves:		
Share capital	60,000	60,000
Revenue reserves	293,800	222,800
	353,800	282,800

NOTES

(1) The company's turnover is comprised of supplies to which VAT at the standard rate is chargeable where appropriate.

It has already been confirmed by HM Revenue and Customs that all EU customers and suppliers are VAT registered.

(2) 40% of purchases are from EU suppliers who are VAT registered in the EU. The remainder are supplied by suppliers registered for VAT in the UK.

(3) Expenses include the following:

	2008	**2007**
	£	**£**
Wages	146,457	99,960
Rent...	40,000	25,000
Light and heat	6,341	5,240
Repairs	14,000	11,150
Motor expenses	12,002	11,850
Miscellaneous expenses	10,000	17,000
Depreciation...	28,200	30,000
	257,000	200,200

No option for VAT has been made by the landlord in respect of the property rented to FIDDLESTICKS Ltd. Miscellaneous expenses include a provision for bad debt on a September 2007 invoice for £6,500 (net) that was still outstanding at September 2008.

(4) Fixed Assets:
The fixed assets note attached to the financial account is as follows:

	Plant and Equipment	Motor vehicles	Total
	£	£	£
Cost:			
At 30th September 2007	270,000	30,000	300,000
Acquisitions	137,500	30,000	167,500
Sales for year	(23,000)	0	(23,000)
At 30th September 2008	384,500	60,000	444,500
Depreciation:			
At 30th September 2007	102,300	18,000	120,300
Charge for year	16,200	12,000	28,200
On disposal	(3,000)	0	(3,000)
At 30th September 2008	115,500	30,000	145,500
Net book value at 30 September 2008	269,000	30,000	299,000

QUESTION 2 *(Cont'd).*

The motor vehicles comprise two cars used by company salesmen. These cars both have CO_2 emissions of 184 g/km and are available for private as well as business use.

Machinery costing £137,500 (net) was acquired on hire purchase, on which a deposit of 10% was paid in August 2008. The company took delivery of this machinery in September 2008.

VAT has previously been claimed on the plant and equipment sold during the year. This plant was sold for £20,000 (net).

(5) The company is authorised to account for Value Added Tax on the normal basis.

Requirement

(a) Calculate the VAT liability of FIDDLESTICKS Ltd. for 2008 based on the accounting information and notes provided. Show clearly your calculations of both the "VAT on sales" (output VAT) and "VAT on purchases" (input VAT) figures. Compare your figures with the return made by the company and briefly outline your conclusions to your supervisor.

15 Marks

(b) Follow this up by writing a business memo to your line manager, outlining whether you consider that the annual accounting scheme is still appropriate for the company in accounting for its VAT, having established whether there has been any serious misdeclaration of VAT for the current period.

5 Marks
Total 20 Marks

QUESTION 3 *(Compulsory)*

GATOR Ltd is a Northern Ireland resident, medium-sized private company, whose principal activity is selling piping products to the brewery market. GATOR Ltd commenced trading on the 1st October 2007. The directors of the company are Andrew Caymen and Carol Crocfoot who also own the company's shares equally.

The Directors decided to prepare their first set of accounts to the 31st December 2008 and the results for the first 15 months showed a profit before taxation and dividends of £200,000.

A detailed examination of the financial accounting records of GATOR Ltd showed the following:

(a) Depreciation of £20,200.

(b) Wages & Salaries of £155,114. This included a redundancy payment made to the factory manager of £36,000, comprising a statutory redundancy element of £6,000 and an ex-gratia payment of £30,000. The Directors considered that this had the benefit of not only keeping factory morale high but also, in return, the factory manager waived any rights to take an action for unfair dismissal against the company.

(c) Bank interest paid of £22,000 includes £14,969 in respect of a loan on new trading premises for use by the company in the course of its trade. The company acquired these premises on 1st April 2008 and moved on the same date. £6,000 of the remainder of the loan interest related to the former trading premises which the company vacated on 31st March 2008. These interest payments accrued evenly throughout the accounting period. The remaining bank interest of £1,031 related to the company's main bank account which was overdrawn at times during the year as a result of its working capital cycle.

(d) The figure for repairs in the accounts includes £20,000 spent on repairs to the windows and roof of the new trading premises before the company moved in.

(e) Entertainment is made up as follows:

	£
Supplier entertainment	1,465
Christmas wine gifts bearing the Company's logo	1,250
Staff Christmas party	1,785
	4,500

(f) Legal and professional fees include £6,180 spent unsuccessfully pursuing a claim for an alleged infringement of a patent.

(g) The company wrote down its stock by £50,000 in the end of period accounts because of general concerns over future trading conditions. In addition the company made specific provision against bad debts of £13,469 and a provision for future warranty payments of £34,700 based on 2.25% of its net sales.

(h) Sundry expenses comprise the following:

	£
Crèche facilities for the workforce	7,016
Charitable gift aid donations	1,200
VAT surcharge late payment	158
Tea & Biscuits for staff meetings	123
	8,497

(i) No new capital equipment was bought during the period until the company moved premises. On 1st May 2008 it acquired new plant costing £41,000 on which it can claim whatever Annual investment allowance is due for the period.

QUESTION 3 *(Cont'd)*

(j) GATOR Ltd has no associated companies for Corporation Tax purposes.

Requirement

Calculate the Corporation Tax liability of GATOR Ltd for the period of account ended 31st December 2008.

Total 20 Marks

SECTION B

Answer ANY TWO of the FOUR questions in Section B

QUESTION 4

(a) On 30th September 2008, Pavel Koller sold a house in Newtownards that he had purchased on 1st March 1992 for £53,000. He spent £900 on solicitors' fees in connection with this purchase. During the period that he owned the house, Pavel lived in it from the date of purchase until 31st December 1998. In September 2008 he built an extension at a cost of £27,000. With effect from 1st January 1999 to 30th June 2007, Pavel rented out the house to a business colleague. Throughout this period Pavel owned a second house in Ballymena, which he elected to treat as his principal private residence during his period of absence from the Newtownards house. Pavel re-occupied the house in Newtownards from 1st July 2007 until the date of sale, when the house was sold for £375,000. He incurred estate agents fees of £2,500 and solicitors fees of £3,600 in connection with this sale.

Requirement

Pavel had no other capital disposals in the tax year ended 5th April 2009. Calculate any Capital Gains Tax payable by Pavel Koller in respect of the sale of this house in Newtownards. **10 Marks**

(b) On 30th April 2008, Jerry Butler sold 5 acres of land in Randalstown for £275,000. He incurred estate agents fees of £2,000 and solicitors fees of £1,500 in connection with this sale. This land was part of a larger holding of 90 acres which Jerry had inherited on the death of his father on 1st May 2001. The probate value of this 90 acre holding was £720,000 on 1st May 2001. The land had never been used by Jerry for business purposes. The value of the 85 acres not sold at 30th April 2008 was £1,000,000.

Requirement

Calculate any Capital Gains Tax payable by Jerry Butler on the sale of this land in Randalstown.

6 Marks

(c) On 1st January 2009, Julia Redknapp a UK resident aged 35 sold her vintage Mini motor car for £49,000. This car was a gift from her mother in March 2002, when Julia's mum had purchased the car for a total cost of £25,000.

Requirement

For 2008/09 compute any Capital Gains Tax payable by Julia on the sale of this vintage Mini motor car.

4 Marks

Total 20 Marks

QUESTION 5

(a) George Silke was born on 11th June 1934, and his wife Ester was born on 31st October 1927. They have been married for 54 years. In 2008/09 George and Ester had net income of £26,000 and £20,000 respectively. They made an election that Ester should receive half of the married couple's allowance.

Requirement

Calculate the allowances available to George for 2008/09

4 Marks

(b) Tiffany Daltry's payments on account, for the tax year 2008/09, were originally £15,000 each. However because she did not consider that her 2008/09 year would be as profitable as 2007/08 Tiffany asked that these payments on account be reduced to £8,000 each. Due to cash difficulties, Tiffany paid the first payment late on 15th March 2009 and the second payment on its due date of 31st July 2009.

Tiffany paid her balancing payment of £10,350 for 2008/09 on 14th February 2010. This payment comprised:

(i) Income Tax of £6,000
(ii) Class 4 National Insurance Contributions of £1,850.
(iii) Capital Gains Tax of £2,500

Requirement

Show clearly the due dates for payment of the above tax, the time periods for which interest will be charged and the amounts of tax on which interest will be charged.

8 Marks

(c) Eoghan, a UK VAT registered trader, has a car repair business that he operates under the flat rate scheme to calculate his VAT liability.

The published flat rate percentage for the 'repair of vehicles' trade sector is 6.5%.

Eoghan's trading figures for the quarter ended 30th September 2008 are as follows:

Trading income...	£24,000 including VAT
Expenses...	£11,000 including VAT of £1,340

During the above quarter Eoghan also spent £10,000 plus VAT of £1,750 on new lifting equipment for the business.

Requirement

Prepare a memorandum for discussion with Eoghan detailing the following:

(a) You are required to show the figures to be included in Eoghan's VAT return for the quarter ended 30th September 2008 explaining clearly how all figures are calculated.

(b) Show clearly the figures for turnover and expenses that will be reflected in Eoghan's accounts.

8 Marks
Total 20 Marks

QUESTION 6

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

Requirement

Indicate the right answer to each of the following TEN parts. **Total 20 Marks**

N. B. *Each part carries 2 marks.*

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

[1] Austin Chambers, a UK registered trader supplies furniture to Thomas Healey, a registered trader in the Republic of Ireland. Austin has received a valid ROI VAT registration number from Thomas. Austin should account for VAT on the sale of furniture to Thomas in the following manner: -

(a) Austin should charge UK VAT at the standard rate
(b) Austin should zero rate the transaction and record Thomas's ROI VAT number against it
(c) Austin should self account for the UK VAT due
(d) Austin can ignore this transaction as it is exempt from UK VAT

[2] Yvonne supplies prescription drugs & medicines through her company: Medical Health Supplies Ltd. These drugs are mainly supplied to other medical companies and pharmacies in the UK. The VAT rate due on these supplies by Medical Health Supplies Ltd is:

(a) Nil as this is an exempt supply
(b) 0%
(c) 5%
(d) Standard rated

[3] Which of the following sources of income received by a UK resident individual is exempt from UK Income Tax?

(a) Maternity allowance
(b) State Retirement Pension
(c) Statutory Sick Pay
(d) Jobseeker's allowance

[4] Which of the following items that Mike, a UK resident taxpayer, disposed of during the tax year ended 5th April 2009, definitely do not give rise to a capital gain: -

(a) Shares held in a small private limited UK company
(b) Overseas property held on the Island of Jersey as a holiday home
(c) The sale of a debt where the debtor is a UK resident individual
(d) Sale of a UK property used in his family business

QUESTION 6 *(Cont'd)*

[5] Indexation relief from a gain on the disposal of property after 5th April 2008 may now only be available where:

- **(a)** The asset was owned before 31st March 1982
- **(b)** The asset was owned before 5th April 1998
- **(c)** The disposal has been made by a limited company
- **(d)** Indexation relief is no longer available in respect of any capital disposals regardless of who owns them or how long they have been held

[6] Which of the following sources of income received by Tulip Limited a UK resident private limited company is **not** subject to UK Corporation Tax at the company's marginal rate?

- **(a)** Dividends received from another UK resident company
- **(b)** Interest received on a loan made to an employee
- **(c)** Patent royalty income from another UK resident company
- **(d)** A chargeable Capital Gain made by the UK resident company

[7] Nicola commenced trading on 1st January 2008 preparing her first accounts for the nine months to 30th September 2008 and annually thereafter. Nicola's results are as follows:

Period to 30th September 2008	£9,000
Year to 30th September 2009	£30,000

The overlap profits created on the commencement of trading by Nicola are as follows:

- **(a)** £3,000
- **(b)** £7,500
- **(c)** £10,500
- **(d)** £15,000

[8] Rita sold her retail business on 1st November 2008 and made a net gain for Capital Gains Tax purposes of £2,000,000 on the sale, before entrepreneurial relief. Rita had started the business on 1st January 2005. The amount of capital gains tax payable on the sale of this business by Rita (assuming full entitlement to entrepreneurial relief) is as follows: -

- **(a)** £154,596
- **(b)** £190,400
- **(c)** £278,272
- **(d)** £280,000

QUESTION 6 *(Cont'd)*

[9] Padraic started trading on 1st April 2008 and prepared his first set of accounts to 31st March 2009. During this period he acquired the following assets for use in his business:

1st July 2008	New car	£21,000
1st January 2009	Fixtures & equipment	£27,031

Assuming that HM Revenue & Customs allow 60% of the motor expenses as being incurred for business purposes AND Padraic qualifies for the AIA (annual investment allowance) what are the maximum capital allowances that Padraic can claim for the period of trading ended 31st March 2009?

(a) £8,558
(b) £28,231
(c) £28,831
(d) £48,031

[10] Kinder Honey Ltd is a UK company based in Comber, County Down. The company prepares its financial accounts to 31st March each year. The Corporation Tax return (CT600) for Kinder Honey Ltd in respect of the year to 31st March 2009 is due to be filed with HM Revenue & Customs on or before: -

(a) 31st December 2009
(b) 1st January 2010
(c) 31st January 2010
(d) 31st March 2010

QUESTION 7

Steven Crabtree is a self-employed client building contractor. Steven has not prepared personal tax returns for a number of years despite having a sizeable income. He owns a number of residential properties which he has let out to tenants. In addition, Steven has a substantial amount on deposit with the bank. He has been referred to you by a friend of his, who has advised him to bring his tax affairs up to date. You have just finished your first meeting with Steven and sensed a reluctance on his part to bring his tax affairs up to date, as he considers that it is likely he has a substantial underpayment of Income and Capital Gains Tax and he feels that it is unlikely that he will be "caught" by HM Revenue & Customs.

Requirement

(a) Write a letter to Steven explaining:

(i) His tax obligations under Self Assessment.

(ii) The penalties that he may be subject to.

14 Marks

(b) Explain briefly any ethical requirements you might have as a tax adviser on accepting Steven as a client and in particular if Steven is reluctant to bring his tax affairs up to date.

6 Marks
Total 20 Marks

2nd Year Examination: Autumn 2009

Taxation II (NI)

Solutions

Solution 1

Adam Wasp

		£	£
Benefits – In – Kind			
(i)	**Laptop computer**		
	Benefit = 20% x cost of £1,200		240.00
(ii)	**Private medical**		650.00
	Payment/cost		
(iii)	**Benefit – Van**		
	Period 6/4/2008 – 5/10/2009		
	(a) Van - £3,000 x 6/12	1,500.00	
	(b) Fuel - £500 x 6/12	250.00	1,750.00
(iv)	**Benefit – Car**		
	Period 6/10/2008 – 5/4/2009		
	Car 2000 cc (156g CO_2)		
	= 6/12 x 19% x 16,000 =	1,520.00	
	Fuel – mileage allowance 15p = exempt		
	3,000 miles at 15p = £450 = exempt	-	
			1,520.00
(v)	**Benefit – Car Parking (exempt)**		
	= exempt		
(vi)	**Benefit – Relocation expenses**		
	1800 cc Car (Petrol)		
	Taxable element = £13,130 - £8,000		5,130.00
TOTAL CHARGEABLE BENEFITS IN KIND			**9,290.00**

Solution 2

FIDDLESTICKS Ltd

(a) VAT Return for the year ended 30th September 2008

Output VAT

	NET		VAT	
	£		**£**	
Sales (Standard rate) to UK customers	878,000.00		153,650.00	
Sales (Zero rate) to other EC customers	250,000.00	(Box 8)	-	
	1,128,000.00		153,650.00	
Sale of Fixes Assets	20,000.00		3,500.00	
	1,148,000.00		157,150.00	
Scale charge – output vat motor vehicles				
2 cars x £331 x 4 qtrs x 40/47	2,253.62		394.38	
	1,150,253.62		157,544.38	(Box 1)
VAT on EU acquisitions	311,200.00		54,460.00	(Box 2)
(workings below)	1,461,453.62	(Box 6)	212,004.38	(Box 3)

Input VAT

	NET		VAT	
Expenditure cost				
UK acquisitions	466,800.00		81,690.00	
EU acquisitions	311,200.00	(Box 9)	54,460.00	
Overheads				
Rent	40,000.00		-	
Light & Heat	6,341.00		317.05	
Repairs	14,000.00		2,450.00	
Motor expenses	12,002.00		2,100.00	
Miscellaneous expenses				
(exclude £6,500 bad debt < 6 mths)	3,500.00		612.50	
	853,841.00		141,629.55	
Fixed assets acquired	137,500.00		24,062.50	
	991,341.00	(Box 7)	165,692.05	(Box 4)

VAT Payable (Box 3 – Box 4) 46,312.33

Memorandum

From:
To:
Date:
Subject:

Both output and Input VAT has been understated and the client has underpaid VAT by £22,402 as a result of these errors.

An aggregate error of this magnitude is likely / liable to give rise to a penalty for a serious misdeclaration.

In addition interest could and probably will be charged on the underpayment.

VAT on sales in particular has been significantly miscalculated and the reasons for this are not readily apparent.

HMRC in the absence of an adequate explanation as to how such a discrepancy arose could remove the facility to account for VAT on an annual basis. Notwithstanding this however, even with the adjustments, they remain within the monetary threshold (£1.354) which permits the use of the scheme.

The cash accounting scheme would also seem to be attractive as the debtors on the Balance Sheet exceed creditors and the same threshold applies.

Again, however, because of the aforementioned arrears and the underpayment of VAT, this could be removed by HRMC and this may have serious working capital implications for the business with the earlier payment of VAT required.

Workings

Computation of purchases

Cost of sales =		763,000.00
Opening stock		- 85,000.00
Closing sock		100,000.00
Purchases		778,000.00
EU Suppliers	40%	311,200.00
UK Suppliers	60%	466,800.00

Solution 3

Gator Ltd
15th Month Period 31/12/2008

Computation of adjusted profits chargeable to corporation tax

	£	£	£
Net Profits as per accounts			200,000
Add			
Depreciation (a)		20,200	
Capital improvements (d)		20,000	
Entertainment (e)	1,465		
Christmas gifts (e)	1,250	2,715	
General stock provision		50,000	
General warranty provision		34,700	
Charitable gift aid donations		1,200	
VAT surcharge on late payment		158	
			128,973
Deduct			328,973
Capital allowances		38,463	
			38,463
Schedule D case 1			290,511

Computation of mainstream corporation tax payable y/e 31 March 2009

Schedule D case 1		290,511	
Charge		1,200	
Profits chargeable to corporation tax			289,311

F/Yr 08			
CT @ 20% on £289,311 x 6/15	20%	23,144.88	
CT @ 21% on £289,311 x 9/15	21%	36,453.18	
Mainstream corporation tax payable			59,598.06

Capital Allowances computation

		Pool	Capital Allowances
	£	**£**	**£**
WDV b/fwd		-	
Additions at cost not eligible for FYA/AIA		-	
Additions at cost for which FYA not claimed		-	
Additions at cost (qualifying for AIA)			
New plant - £41,000	41,000		
AIA – 100% x 9/12 (from 1 April 2008) x £50,000	- 37,500		37,500
		3,500	
		3,500	
Disposals at lower cost or proceeds of sale		-	
Additions at cost (not eligible for FYA)		-	
		3,500	
WDA (22%) x 15/12		- 963	963
WDA (restricted)			
		2,538	
Total capital allowances claimed			38,463

Workings – WDA transitional rate

25% x 6/15 (period to 31/03/08)	0.10	
20% x 9/15 (period to 31/12/08)	0.12	0.22

Solution 4

Paval Koller

30/09/08	Sales proceeds		375,000
	Deduct allowable costs on sale		
	Estate agents fees	2,500	
	Solicitors fees	3,600	
			6,100
	Net Sales proceeds		368,900
	Deduct		
01/03/92	Original acquisition cost	53,000	
	Solicitor costs	900	
30/09/08	Cost of extension	27,000	
			80,900
Gain before principal			

Computation of principal private residence exemption

				Period of ownership months	**Actual or deemed occupation months**
1/03/92 – 31/12/98	Occupation by Paval			82	82
1/01/99 – 30/09/05	Rented out to business colleague			81	-
1/10/05 – 30/09/08	Last 36 months – let at commercial rent but deemed occupation up to date of sale			36	36
				199	118
	Principal private residence exemption	118/199	170,774		
			117,226		
	Residential letting exemption		40,000		
	Gain before Annual exemption		77,226		
	Annual exemption		- 9,600		
			67,626		
	Capital Gains Tax payable	**18%**		12,173	

(b) Jerry Butler – sale of land

30/04/08	Sales proceeds		275,000
	Deduct allowable costs on sale		
	Estate agents fees	2,000	
	Solicitors fees	1,500	
			3,500
	Net Sales Proceeds		271,500
	Deduct		
01/05/01	Original acquisition cost –		
	Mkt value on father's death		
	720,000 x 275,000		
	(275,000 + 1,000,000)	155,294	
			155,294
	Gain before annual exemption		116,206
	Annual exemption		- 9,600
	Chargeable capital gain		
	on disposal of residence		106,606
	Capital Gains Tax payable	18%	19,189

(b) Julia Redknapp – sale of vintage car

01/01/09 Car is a wasting chattel
As such is exempt from cgt
(as capital allowances have
not been claimed in the past)

Solution 5

(a) George Silke

	£
Personal allowance	
Maximum aged 74 (during tax year)	9,030
Restriction	
(£26,000 - £21,800) x 50%	2,100
Age related personal allowance (restricted)	6,930
Married couple allowances	
Maximum – elder spouse aged over 75	6,625
Restriction	
(£26,000 - £21,800) x 50%	2,100
MCA	4,525
Allowance to George = 50%	2,263
Relief given at rate of 10%	226

(b) Tiffany Daltry 2008/09

	due date	date paid	£	
First payment on account	31/01/09	15/03/09	8,000	Interest on late payment of this £8,000 between 01/02/09 & 15/03/09
Reduction in this poa claimed in error	31/01/09	14/02/10	3,000	Interest on this ½ of balancing pay & Class iv nic between 01/02/09 & 14/02/10
Second payment on account	31/07/09	31/07/09	8,000	No interest due
Reduction in second poa Claimed in error	31/07/09	14/02/10	3,925	Interest on this ½ of balancing pay & Class iv nic between 01/02/09 & 14/02/10
CGT on capital gain	31/01/10	14/02/10	2,500	Interest on late payment of this £2,500 Between 01/02/10 & 14/02/10

(c) Eoghan

		Gross	**VAT**	**NET**
			£	**£ £**
Output VAT				
Sales	(i)	24,000	1,560	22,440 (Box 1)
Input VAT				
Expenses	(ii)	11,000	-	11,000
Capital Asset acquired	(iii)	11,750	1,750	10,000
Net VAT refund			190	21,000
			Box 5	Box 4

(i) Calculated as £24,000 = 106%
(ii) No input VAT reclaim on normal relevant exp.
(iii) Input VAT reclaimable on capital additions over £2,000

Solution 6

Multiple Choice Question

	Answer	**Workings**
1	B	Austin should zero rate the transaction & record Thomas's ROI VAT no. against it.
2	A	Nil as this is an exempt supply
3	A	Maternity allowance
4	C	The sale of UK debt
5	C	The disposal has been made by a limited company
6	A	Dividends received from another UK resident company
7	C	Overlap £10,500
8	C	£278,272
9	C	£28,831
10	D	31st March 2010

Solution 7

(a) Business Letter – layout including

(i) Steven Crabtree
Address
Date

Dear Steven,

I understand that for the last few years you have failed to disclose to HMRC significant income from the following sources:
Profits from trading activities
Rental income from your residential properties
Bank interest received – which may have suffered income tax deduction at source

(ii) I would strongly urge that you consider disclosure of your non-compliance on a voluntary basis before HMRC raise the matter with you. Such an approach would result in the prospect of payment of any tax and interest on late payment becoming due, but the level of financial penalties imposed would be reduced. If you make disclosure after HMRC become aware of the position and only after prompted the level of the penalties imposed could be in excess of €60% of the unpaid tax.

It appears that you consider unlikely that HMRC will detect your failure to declare your income and as a consequence any underpayment of taxation that you may owe. I would strongly suggest that this point of view is erroneous. The construction industry, domestic rental income sector and bank interest are all sectors for which HMRC collect a vast amount of data. As a result, their compliance officers may well identify your existence and non compliance in the near future. They do this through a variety of means, including – audit visits to suppliers, customers, taxpayers who buy & sell properties (declaring their capital gains), newspaper advertisements, bank interest notifications. You should not let the years build up as the amount owing in tax unpaid is likely to significantly increase with the passage of time.

In addition for the avoidance of doubt, you have an obligation to return your income and the sources from which it arises to HMRC regardless of whether or not they are aware of your situation. Ignorance o your responsibility is not a valid excuse and will not be accepted as such in the mitigation of penalties by an Inspector of Taxes. As indicated above penalties can amount to 100% of the unpaid tax in the case of negligence or wilful default and higher still in the case of fraud.

The level of such penalties is dependent on an number of factors including the factors leading to disclosure, the amount of cooperation received and the nature/gravity (size) of the offence.

Money laundering as an offence includes the non disclosure of taxation and therefore there is the possibility of criminal charges and not simply civil charges, should the offence continue.
I would strongly recommend that you choose to make a voluntary disclosure of your affairs and as a firm we have a lot of experience in these matters and would welcome the opportunity to assist with returns and negotiations on your behalf.

(b) Ethical considerations

Accounting Technicians Ireland has their own standards and guidelines including a code of ethics.

May have to decline the engagement – client confidentiality considerations (client privilege) & reporting responsibilities to Money laundering officer in the firm
To SOCA as a firm
Avoidance of tipping off