

Fundamentals Level – Skills Module

# Taxation (United Kingdom)

March/June 2016 – Sample Questions



**Time allowed**

Reading and planning: 15 minutes

Writing: 3 hours

This question paper is divided into two sections:

Section A – ALL 15 questions are compulsory and **MUST** be attempted

Section B – ALL SIX questions are compulsory and **MUST** be attempted

Rates of tax and tables are printed on pages 2–4.

**Do NOT open this question paper until instructed by the supervisor.**

**During reading and planning time only the question paper may be annotated. You must NOT write in your answer booklet until instructed by the supervisor.**

**Do NOT record any of your answers on the question paper.**

**This question paper must not be removed from the examination hall.**

# Paper F6 (UK)

Think Ahead

**ACCA**

The Association of  
Chartered Certified  
Accountants

**SUPPLEMENTARY INSTRUCTIONS**

1. Calculations and workings need only be made to the nearest £.
2. All apportionments should be made to the nearest month.
3. All workings should be shown in Section B.

**TAX RATES AND ALLOWANCES**

The following tax rates and allowances are to be used in answering the questions.

	<b>Income tax</b>	<b>Normal rates</b>	<b>Dividend rates</b>
Basic rate	£1 – £31,865	20%	10%
Higher rate	£31,866 to £150,000	40%	32·5%
Additional rate	£150,001 and over	45%	37·5%

A starting rate of 10% applies to savings income where it falls within the first £2,880 of taxable income.

**Personal allowance**

<b>Personal allowance</b>	
Born on or after 6 April 1948	£10,000
Born between 6 April 1938 and 5 April 1948	£10,500
Born before 6 April 1938	£10,660

<b>Income limit</b>	
Personal allowance	£100,000
Personal allowance (born before 6 April 1948)	£27,000

**Residence status**

<b>Days in UK</b>	<b>Previously resident</b>	<b>Not previously resident</b>
Less than 16	Automatically not resident	Automatically not resident
16 to 45	Resident if 4 UK ties (or more)	Automatically not resident
46 to 90	Resident if 3 UK ties (or more)	Resident if 4 UK ties
91 to 120	Resident if 2 UK ties (or more)	Resident if 3 UK ties (or more)
121 to 182	Resident if 1 UK tie (or more)	Resident if 2 UK ties (or more)
183 or more	Automatically resident	Automatically resident

**Child benefit income tax charge**

Where income is between £50,000 and £60,000, the charge is 1% of the amount of child benefit received for every £100 of income over £50,000.

**Car benefit percentage**

The relevant base level of CO<sub>2</sub> emissions is 95 grams per kilometre.

The percentage rates applying to petrol cars with CO<sub>2</sub> emissions up to this level are:

75 grams per kilometre or less	5%
76 grams to 94 grams per kilometre	11%
95 grams per kilometre	12%

### Car fuel benefit

The base figure for calculating the car fuel benefit is £21,700.

### New individual savings accounts (NISAs)

The overall investment limit is £15,000.

### Pension scheme limit

Annual allowance – 2014–15	£40,000
– 2011–12 to 2013–14	£50,000

The maximum contribution that can qualify for tax relief without any earnings is £3,600.

### Authorised mileage allowances: cars

Up to 10,000 miles	45p
Over 10,000 miles	25p

### Capital allowances: rates of allowance

<b>Plant and machinery</b>	
Main pool	18%
Special rate pool	8%

#### Motor cars

New cars with CO <sub>2</sub> emissions up to 95 grams per kilometre	100%
CO <sub>2</sub> emissions between 96 and 130 grams per kilometre	18%
CO <sub>2</sub> emissions over 130 grams per kilometre	8%

#### Annual investment allowance

Rate of allowance	100%
Expenditure limit	£500,000

### Cap on income tax reliefs

Unless otherwise restricted, reliefs are capped at the higher of £50,000 or 25% of income.

### Corporation tax

Financial year	2012	2013	2014
Small profits rate	20%	20%	20%
Main rate	24%	23%	21%
Lower limit	£300,000	£300,000	£300,000
Upper limit	£1,500,000	£1,500,000	£1,500,000
Standard fraction	1/100	3/400	1/400

### Marginal relief

Standard fraction x (U – A) x N/A

### Value added tax (VAT)

Standard rate	20%
Registration limit	£81,000
Deregistration limit	£79,000

### Inheritance tax: tax rates

£1 – £325,000	Nil
Excess – Death rate	40%
– Lifetime rate	20%

### Inheritance tax: taper relief

Years before death	Percentage reduction
Over 3 but less than 4 years	20%
Over 4 but less than 5 years	40%
Over 5 but less than 6 years	60%
Over 6 but less than 7 years	80%

### Capital gains tax

Rates of tax – Lower rate	18%
– Higher rate	28%
Annual exempt amount	£11,000
Entrepreneurs' relief – Lifetime limit	£10,000,000
– Rate of tax	10%

### National insurance contributions (Not contracted out rates)

Class 1	Employee	£1 – £7,956 per year	Nil
		£7,957 – £41,865 per year	12%
		£41,866 and above per year	2%
Class 1	Employer	£1 – £7,956 per year	Nil
		£7,957 and above per year	13.8%
		Employment allowance	£2,000
Class 1A			13.8%
Class 2		£2.75 per week	
		Small earnings exception limit	£5,885
Class 4		£1 – £7,956 per year	Nil
		£7,957 – £41,865 per year	9%
		£41,866 and above per year	2%

### Rates of interest (assumed)

Official rate of interest	3.25%
Rate of interest on underpaid tax	3%
Rate of interest on overpaid tax	0.5%

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Section B begins on page 6.**

**Section B – ALL SIX questions are compulsory and MUST be attempted**

Please write your answers to all parts of these questions on the lined pages within the Candidate Answer Booklet.

- 1 Garfield has been registered for valued added tax (VAT) since 1 April 2008. Garfield has previously completed his VAT returns himself, but for the quarter ended 31 March 2015 there are some items for which he is unsure of the correct VAT treatment.

Garfield’s partly completed VAT computation for the quarter ended 31 March 2015 is shown below. All of the completed sections of the computation are correct, with the omissions marked as outstanding (O/S).

	Note	£
<b>Output VAT</b>		
Sales (all standard rated)		22,500
Discounted sale	1	O/S
Equipment	2	O/S
Fuel scale charge		60
<b>Input VAT</b>		
Purchases (all standard rated)		(11,200)
Motor car (purchased on 1 January 2015)		0
Equipment	2	O/S
Impairment losses	3	O/S
Entertaining – UK customers		0
– Overseas customers	4	O/S
Motor expenses	5	O/S
<b>VAT payable</b>		O/S

Unless otherwise stated, all of the figures in the following notes are stated exclusive of VAT.

**Note 1 – Discounted sale**

On 10 February 2015, a sales invoice for £4,300 was issued by Garfield in respect of a standard rated supply. To encourage this previously late paying customer to pay promptly, Garfield offered a 10% discount for payment within 14 days of the date of the sales invoice. The customer paid within the 14-day period.

This invoice has not been taken into account in calculating the output VAT figure of £22,500, and this is the only sale for which Garfield has offered a prompt payment discount.

**Note 2 – Equipment**

During the quarter ended 31 March 2015, Garfield acquired some new equipment at a cost of £12,400 from a VAT registered supplier situated in the European Union.

**Note 3 – Impairment losses**

On 31 March 2015, Garfield wrote off three impairment losses. Details are as follows:

Amount	Invoice date	Payment due date
£1,400	30 July 2014	29 August 2014
£2,700	12 September 2014	12 October 2014
£1,900	4 October 2014	3 November 2014

**Note 4 – Entertaining**

During the quarter ended 31 March 2015, Garfield spent £960 on entertaining overseas customers. This figure is inclusive of VAT.

**Note 5 – Motor expenses**

The motor car purchased on 1 January 2015 is used by Garfield 60% for business mileage. During the quarter ended 31 March 2015, Garfield spent £1,008 on repairs to the motor car and £660 on fuel for both his business and private mileage. Both of these figures are inclusive of VAT.

**Additional information**

Garfield does not use the cash accounting scheme, the annual accounting scheme or the flat rate scheme, but has read that the use of these schemes can be beneficial for small businesses such as his.

Garfield's VAT exclusive annual turnover is currently £450,000, and this is expected to steadily decrease over the coming years. He pays for most of his purchases and expenses on a cash basis, but allows many of his customers 30 days credit when paying for sales.

**Required:**

- (a) **Calculate the amount of value added tax (VAT) payable by Garfield for the quarter ended 31 March 2015.**  
(7 marks)
- (b) **State which VAT schemes Garfield is currently permitted to use, and explain, with supporting reasons, which ONE of the available schemes would appear to be the most beneficial for him to use.**

**Notes:**

1. Your answer should be confined to the information given in the question.
2. You are not expected to explain how any of the schemes operate. (3 marks)

**(10 marks)**

**2 You should assume that today's date is 1 March 2014.**

George, a software developer, was born on 11 June 1986. He has accepted a one-year contract to update software for Xpee plc.

- (1) The contract will run from 6 April 2014 to 5 April 2015, with a fee of £40,000 payable for the entire year of the contract. A condition of the contract is that George will have to do the work personally and not be permitted to sub-contract the work to anyone else.
- (2) George will work from home, but will have to attend weekly meetings at Xpee plc's offices to receive instructions regarding the work to be performed during the following week.
- (3) George will not incur any significant expenses in respect of the contract apart from the purchase of a new laptop computer for £3,600 on 6 April 2014. This laptop will be used 100% for business purposes.
- (4) During the term of the contract, George will not be permitted to work for any other clients. He will therefore not have any other income during the tax year 2014–15.
- (5) George's tax liability for the tax year 2013–14 was collected through PAYE, so he will not be required to make any payments on account in respect of the tax year 2014–15.

George has several friends who are also software developers. He understands that his employment status is not clear cut but that his income tax liability for the tax year 2014–15 will be the same regardless of whether he is treated as employed or as self-employed. However, George appreciates that there are advantages to being classed as self-employed.

**Required:**

- (a) List FOUR factors which are indicators of George being treated as an employee in relation to his contract with Xpee plc rather than as self-employed.**

Note: You should confine your answer to the information given in the question. (2 marks)

- (b) Calculate George's income tax liability and national insurance contributions for the tax year 2014–15 if he is treated as self-employed in respect of his contract with Xpee plc.** (4 marks)

- (c) If George is treated as being an employee of Xpee plc instead of self-employed:**

**(i) Explain why his income tax liability will be payable earlier.** (2 marks)

**(ii) Calculate the additional amount of national insurance contributions which he personally will suffer for the tax year 2014–15.** (2 marks)

**(10 marks)**

**3** Jerome made the following gifts to family members during the tax year 2014–15:

- (1) On 28 May 2014, Jerome made a gift of a house valued at £187,000 to his wife. Jerome's uncle had originally purchased the house on 14 July 1995 for £45,900. The uncle died on 12 June 2004, and the house was inherited by Jerome. On that date, the house was valued at £112,800. Jerome has never occupied the house as his main residence.
- (2) On 24 June 2014, Jerome made a gift of his entire 12% holding of 12,000 £1 ordinary shares in Reward Ltd, an unquoted trading company, to his son. The market value of the shares on that date was £98,400. The shares had been purchased on 15 March 2006 for £39,000. On 24 June 2014, the market value of Reward Ltd's chargeable assets was £540,000, of which £460,000 was in respect of chargeable business assets. Jerome and his son have elected to hold over the gain on this gift of a business asset.
- (3) On 7 November 2014, Jerome made a gift of an antique bracelet valued at £12,200 to his granddaughter. The antique bracelet had been purchased on 1 September 2001 for £2,100.
- (4) On 29 January 2015, Jerome made a gift of nine acres of land valued at £78,400 to his brother. He had originally purchased ten acres of land on 3 November 2005 for £37,800. The market value of the unsold acre of land as at 29 January 2015 was £33,600. The land has never been used for business purposes.

**Required:**

**(a) Calculate Jerome's chargeable gains for the tax year 2014–15.**

Note: You should ignore inheritance tax.

(7 marks)

**(b) For each of the four recipients of assets (1) to (4) gifted from Jerome, state their respective base cost for capital gains tax purposes.**

(3 marks)

**(10 marks)**

**4** James died on 22 January 2015. He had made the following gifts during his lifetime:

- (1) On 9 October 2007, a cash gift of £35,000 to a trust. No lifetime inheritance tax was payable in respect of this gift.
- (2) On 14 May 2013, a cash gift of £420,000 to his daughter.
- (3) On 2 August 2013, a gift of a property valued at £260,000 to a trust. No lifetime inheritance tax was payable in respect of this gift because it was covered by the nil rate band. By the time of James' death on 22 January 2015, the property had increased in value to £310,000.

On 22 January 2015, James' estate was valued at £870,000. Under the terms of his will, James left his entire estate to his children.

The nil rate band of James' wife was fully utilised when she died ten years ago.

The nil rate band for the tax year 2007–08 is £300,000, and for the tax year 2013–14 it is £325,000.

**Required:**

- (a) **Calculate the inheritance tax which will be payable as a result of James' death, and state who will be responsible for paying the tax.** (6 marks)
- (b) **Explain why it might have been beneficial for inheritance tax purposes if James had left a portion of his estate to his grandchildren rather than to his children.** (2 marks)
- (c) **Explain why it might be advantageous for inheritance tax purposes for a person to make lifetime gifts even when such gifts are made within seven years of death.**

**Notes:**

1. Your answer should include a calculation of James' inheritance tax saving from making the gift of property to the trust on 2 August 2013 rather than retaining the property until his death.
2. You are not expected to consider lifetime exemptions in this part of the question. (2 marks)

**(10 marks)**

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Question 5 begins on page 12.**

5 Patience was born on 31 December 1954. She retired on 31 December 2014, and on that date ceased employment and self-employment. The following information is available in respect of the tax year 2014–15:

### Employment

- (1) Patience was employed by a private school as a teacher. From 6 April to 31 December 2014, she was paid a salary of £3,750 per month.
- (2) During the period 6 April to 31 December 2014, Patience contributed 6% of her monthly gross salary of £3,750 into her employer's HM Revenue and Customs' (HMRC's) registered occupational pension scheme. Patience's employer contributed a further 10% on her behalf.
- (3) During the period 6 April to 30 June 2014, Patience's granddaughter was provided with a free place at the private school run by Patience's employer. The normal fee payable would have been £4,600. The additional marginal expense of providing the place for the grandchild was £540.
- (4) On 25 June 2014, Patience was given a clock valued at £600 as an award for her 25 years of teaching at her employer's school. She has not previously received any similar awards.
- (5) Patience's employer provided her with an interest-free loan so that she could purchase a season ticket for the train to work. The balance of the loan outstanding at 6 April 2014 was £8,000, and Patience repaid the loan in full on 31 December 2014.

### Self-employment

- (1) Patience was self-employed as a private tutor. Her trading profit for the year ended 31 July 2014 was £14,800. This figure is **after** taking account of capital allowances.
- (2) Patience's trading profit for the final five-month period of trading from 1 August to 31 December 2014 was £6,900. This figure is **before** taking account of capital allowances.
- (3) The tax written down value of the capital allowances main pool at 1 August 2014 was £2,200. On 10 August 2014, Patience purchased a laptop computer for £1,700.

On the cessation of trading, Patience personally retained the laptop computer. Its value on 31 December 2014 was £1,200. The remainder of the items included in the main pool were sold for £800 on 31 December 2014.

- (4) Patience has unused overlap profits brought forward of £3,700.

### Personal pension contributions

During the period 6 April to 31 December 2014, Patience contributed a total of £3,600 (net) into a personal pension scheme.

### Pension income

During the period 1 January to 5 April 2015, Patience received the state pension of £1,450, a pension of £6,000 from her employer's occupational pension scheme, and a private pension of £3,300. These were the total gross amounts received.

### Property

Patience owned two properties which were let out unfurnished until both properties were sold on 31 December 2014. The following information is available in respect of the two properties:

	Property one	Property two
	£	£
Rent received during the tax year 2014–15	3,600	7,200
Sale proceeds on 31 December 2014	122,000	98,000
Allowable revenue expenditure during the tax year 2014–15	(4,700)	(2,600)
Purchase cost	(81,400)	(103,700)

Patience has never occupied either of the two properties as her main residence.

**Required:**

**Calculate Patience's income tax and capital gains tax liabilities for the tax year 2014–15.**

**Notes:**

1. You should indicate by the use of zero (0) any items which are not taxable or deductible.
2. The following mark allocation is provided as guidance for this question:

Income tax	13 marks
Capital gains tax	2 marks

**(15 marks)**

6 Jump Ltd's summarised statement of profit or loss for the three-month period ended 31 March 2015 is as follows:

	Note	£	£
Revenue			264,900
Operating expenses			
Depreciation		8,100	
Employee costs	1	189,700	
Lease of motor car	2	1,200	
Professional fees	3	7,800	
Other expenses	4	<u>202,800</u>	
			<u>(409,600)</u>
Operating loss			(144,700)
Bank interest receivable			<u>0</u>
Loss before taxation			<u>(144,700)</u>

#### Note 1 – Employee costs

Employee costs are as follows:

	£
Employee training courses	3,400
Employee pension contributions paid	11,600
Cost of annual staff party (for eight employees)	1,500
Balance of expenditure (all allowable)	<u>173,200</u>
	<u>189,700</u>

#### Note 2 – Lease of motor car

The lease is in respect of a motor car with CO<sub>2</sub> emissions of 189 grams per kilometre.

#### Note 3 – Professional fees

Professional fees are as follows:

	£
Accountancy	2,200
Legal fees in connection with the issue of share capital	3,800
Legal fees in connection with the renewal of a 20-year property lease	<u>1,800</u>
	<u>7,800</u>

#### Note 4 – Other expenses

Other expenses are as follows:

	£
Entertaining UK customers	1,700
Entertaining overseas customers	790
Political donations	800
Balance of expenditure (all allowable)	<u>199,510</u>
	<u>202,800</u>

#### Additional information

##### Plant and machinery

On 1 January 2015, the tax written down values of Jump Ltd's plant and machinery were as follows:

	£
Main pool	12,100
Special rate pool	5,700

The following motor cars were sold during the three-month period ended 31 March 2015:

	Date of sale	Proceeds £	Original cost £
Motor car [1]	7 January 2015	9,700	9,300
Motor car [2]	29 March 2015	6,100	13,200

The original cost of motor car [1] was added to the special rate pool when it was purchased, and the original cost of motor car [2] was added to the main pool when it was purchased.

### Previous results

Jump Ltd's results for its two previous periods of trading are as follows:

	Year ended 31 May 2014 £	Period ended 31 December 2014 £
Tax adjusted trading profit	78,600	42,400
Bank interest receivable	1,200	0

### Group companies

Jump Ltd owns 80% of the ordinary share capital of Hop Ltd and 60% of the ordinary share capital of Skip Ltd.

Hop Ltd commenced trading on 1 August 2014, and for the eight-month period ended 31 March 2015 has taxable total profits of £63,000.

Skip Ltd has been trading for several years and has taxable total profits of £56,000 for the year ended 31 March 2015.

### Rates of corporation tax

Jump Ltd, Hop Ltd and Skip Ltd have always paid corporation tax at the small profits rate of 20%, and expect to continue to do so in respect of future profits.

### Required:

**(a) Calculate Jump Ltd's tax adjusted trading loss for the three-month period ended 31 March 2015.**

Notes:

- Your computation should commence with the operating loss figure of £144,700, and should list all of the items referred to in notes (1) to (4), indicating by the use of zero (0) any items which do not require adjustment.
- You should assume that the company claims the maximum available capital allowances. (10 marks)

**(b) (i) State the main factor which will influence Jump Ltd's choice of loss relief or group relief claims.** (1 mark)

- (ii) Advise Jump Ltd as to the maximum amount of its trading loss which can be relieved against its total profits for the year ended 31 May 2014 and the seven-month period ended 31 December 2014.** (2 marks)

- (iii) Advise Jump Ltd as to the maximum amount of its trading loss which can be surrendered as group relief.** (2 marks)

**(15 marks)**

**End of Question Paper**