

Fundamentals Level – Skills Module

Taxation (United Kingdom)

September/December 2015



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.

The Association of Chartered Certified Accountants

Paper F6 (UK)

ACCA

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.

	Income tax	Normal rates	Dividend rates
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

Personal allowance

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

Income limit

Personal allowance	£100,000
Personal allowance (born before 6 April 1948)	£27,000

Residence status

Days in UK	Previously resident	Not previously resident
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 CO₂ emissions is 95 grams per kilometre.

The percentage rates applying to petrol cars with CO₂ 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

Plant and machinery	
Main pool	18%
Special rate pool	8%

Motor cars

New cars with CO ₂ emissions up to 95 grams per kilometre	100%
CO ₂ emissions between 96 and 130 grams per kilometre	18%
CO ₂ 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 exemption 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%

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

Please use the grid provided on page two of the Candidate Answer Booklet to record your answers to each multiple choice question. Do not write out the answers to the MCQs on the lined pages of the answer booklet.

Each question is worth 2 marks.

- 1 On 10 January 2015, a freehold property owned by Winifred was damaged by a fire. The property had been purchased on 29 May 2002 for £73,000. Winifred received insurance proceeds of £37,200 on 23 February 2015, and she spent a total of £41,700 during March 2015 restoring the property. Winifred has elected to disregard the part disposal.

What is the base cost of the restored freehold property for capital gains tax purposes?

- A £68,500
- B £77,500
- C £114,700
- D £35,800

- 2 **Which TWO of the following items of expenditure are deductible in the calculation of an individual's taxable income?**

- (1) A contribution into a personal pension scheme
- (2) A charitable gift aid donation
- (3) A contribution into an employer's HM Revenue and Customs' registered occupational pension scheme
- (4) A charitable donation made under the payroll deduction scheme

- A 3 and 4
- B 1 and 2
- C 2 and 3
- D 1 and 4

- 3 Benjamin died on 30 November 2014 leaving an estate valued at £890,000. Inheritance tax of £276,000 was paid in respect of the estate. Under the terms of his will, Benjamin left £260,000 to his wife, a specific legacy of £120,000 (free of tax) to his brother, and the residue of the estate to his grandchildren.

What is the amount of inheritance received by Benjamin's grandchildren?

- A £614,000
- B £510,000
- C £354,000
- D £234,000

- 4 Yui commenced trading on 1 April 2014, and registered for value added tax (VAT) from 1 January 2015. Her first VAT return is for the quarter ended 31 March 2015. During the period 1 April 2014 to 31 March 2015, Yui incurred input VAT of £110 per month in respect of the hire of office equipment.

How much input VAT in respect of the office equipment can Yui reclaim on her VAT return for the quarter ended 31 March 2015?

- A £660
- B £990
- C £330
- D £1,320

- 5 Since 6 April 2014, Nicolas has let out an unfurnished freehold office building. On that date, the tenant paid Nicolas a premium of £82,000 for the grant of a 15-year lease.

How much of the premium of £82,000 will Nicolas include when calculating his property business profit for the tax year 2014–15?

- A £59,040
- B £22,960
- C £82,000
- D £5,467

- 6 Wan ceased trading on 31 December 2014, having been self-employed since 1 January 2002. On 1 January 2014, the tax written down value of her plant and machinery main pool was £6,200. On 10 November 2014, Wan purchased a computer for £1,600. All of the items included in the main pool were sold for £9,800 on 31 December 2014.

What is the balancing charge which will arise upon the cessation of Wan's trade?

- A £4,716
- B £3,404
- C £2,000
- D £3,600

- 7 For the year ended 30 June 2014, Forgetful Ltd had a corporation tax liability of £166,250, which it did not pay until 31 July 2015. Forgetful Ltd is not a large company.

How much interest will Forgetful Ltd be charged by HM Revenue and Customs (HMRC) in respect of the late payment of its corporation tax liability for the year ended 30 June 2014?

- A £1,801
- B £2,909
- C £5,403
- D £1,662

- 8 Mammoth Ltd commenced trading on 1 January 2012. The company's augmented profits have been as follows:

Period	£
Year ended 31 December 2012	524,000
Year ended 31 December 2013	867,000
Year ended 31 December 2014	912,000

Throughout all of these periods, Mammoth Ltd had one associated company.

What is the first year for which Mammoth Ltd will be required to pay its corporation tax liability by quarterly instalments?

- A Year ended 31 December 2013
- B None of the years ended 31 December 2012, 2013 or 2014
- C Year ended 31 December 2014
- D Year ended 31 December 2012

- 9 On 31 March 2015, Jessica sold a copyright for £28,800. The copyright had been purchased on 1 April 2009 for £21,000 when it had an unexpired life of 15 years.

What is Jessica's chargeable gain in respect of the disposal of the copyright?

- A Nil
- B £20,400
- C £16,200
- D £7,800

- 10 Lorna has the choice of being either employed or self-employed. If employed, Lorna's gross annual salary for the tax year 2014–15 will be £36,000. If self-employed, Lorna's trading profit for the year ended 5 April 2015 will be £36,000.

How much more national insurance contributions will Lorna suffer for the tax year 2014–15 if she chooses to be employed rather than self-employed?

- A £841
- B £937
- C £698
- D £1,080

- 11 Heng is a wealthy 45 year old who would like to reduce the potential inheritance tax liability on her estate when she dies.

Which of the following actions will NOT achieve Heng's aim of reducing the potential inheritance tax liability on her estate when she dies?

- A Changing the terms of her will so that the residue of her estate goes to her grandchildren rather than her children
- B Making lifetime gifts to trusts up to the value of the nil rate band every seven years
- C Changing the terms of her will so that the residue of her estate goes to her husband rather than her children
- D Making lifetime gifts to her grandchildren early in life

- 12 **Which of the following companies will be treated as resident in the UK for corporation tax purposes?**

- (1) A Ltd, a company incorporated in the UK, with its central management and control exercised in the UK
- (2) B Ltd, a company incorporated overseas, with its central management and control exercised in the UK
- (3) C Ltd, a company incorporated in the UK, with its central management and control exercised overseas
- (4) D Ltd, a company incorporated overseas, with its central management and control exercised overseas

- A 1 only
- B 1, 2, 3 and 4
- C 2 and 3 only
- D 1, 2 and 3 only

- 13 Taxes can be either capital taxes or revenue taxes, although some taxes are neither type of tax.

Which is the correct classification for the following three taxes?

	Value added tax	Inheritance tax	National insurance contributions
A	Neither type	Revenue tax	Capital tax
B	Revenue tax	Capital tax	Neither type
C	Capital tax	Neither type	Revenue tax
D	Neither type	Capital tax	Revenue tax

14 During the year ended 31 March 2015, Luck Ltd received the following dividends:

	£
From unconnected companies	4,680
From a company in which Luck Ltd has a 80% shareholding	3,870
From a company in which Luck Ltd has a 45% shareholding	1,260

These figures are the actual cash amounts received.

What is the amount of Luck Ltd's franked investment income (FII) for the year ended 31 March 2015?

- A £6,600
- B £10,900
- C £5,940
- D £5,200

15 For the tax year 2014–15, what are the latest dates by which a taxpayer, who does not wish to incur a penalty, should file a self-assessment tax return on paper or online?

	Paper tax return	Online tax return
A	31 October 2015	31 January 2017
B	31 October 2015	31 January 2016
C	31 October 2016	31 January 2016
D	31 October 2016	31 January 2017

(30 marks)

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 You should assume that today's date is 1 March 2015.

- (a)** On 27 August 2014, Ruby disposed of an investment property, and this resulted in a chargeable gain of £45,800.

For the tax year 2014–15, Ruby has taxable income of £17,600.

Required:

Calculate Ruby's capital gains tax liability for the tax year 2014–15 if this is her only disposal in that tax year. (2 marks)

- (b)** In addition to the disposal already made on 27 August 2014, Ruby is going to make one further disposal during the tax year 2014–15. This disposal will be of either Ruby's holding of £1 ordinary shares in Pola Ltd, or her holding of 50p ordinary shares in Aplo plc.

Shareholding in Pola Ltd

Pola Ltd is an unquoted trading company, in which Ruby has a 10% shareholding. The shareholding was purchased on 14 July 2007 for £23,700 and could be sold for £61,000. Ruby has been an employee of Pola Ltd since 2005.

Shareholding in Aplo plc

Aplo plc is a quoted trading company, in which Ruby has a shareholding of 40,000 50p ordinary shares. Ruby received the shareholding as a gift from her father on 27 May 2010. On that date, the shares were quoted on the stock exchange at £2.12–£2.24. There were no recorded bargains on that date. The shareholding could be sold for £59,000.

Neither entrepreneurs' relief nor holdover relief is available in respect of this disposal.

Required:

Calculate Ruby's revised capital gains tax liability for the tax year 2014–15 if, during March 2015, she also disposes of either (1) her shareholding in Pola Ltd; or alternatively (2) her shareholding in Aplo plc.

Note: The following mark allocation is provided as guidance for this requirement:

Pola Ltd (4.5 marks)

Aplo plc (3.5 marks)

(8 marks)

(10 marks)

2 (a) Inheritance tax legislation does not actually contain a definition of who is, and who is not, a chargeable person.

Required:

(i) **Explain whether or not a married couple is treated as a chargeable person for inheritance tax purposes.** (1 mark)

(ii) **State the special inheritance tax measures which are applicable to married couples.** (2 marks)

(b) Marcus died on 10 March 2015. He had made the following gifts during his lifetime:

(1) On 14 January 2006, Marcus made a chargeable lifetime transfer of £290,000 to a trust. The trustees paid the lifetime inheritance tax of £3,000 which arose in respect of this gift.

(2) On 3 February 2012, Marcus made a chargeable lifetime transfer of £420,000 to another trust. In addition to the gift, Marcus paid the related lifetime inheritance tax of £96,250 on this gift.

(3) On 17 March 2012, Marcus made a gift (a potentially exempt transfer) of 30,000 £1 ordinary shares in Scarum Ltd, an unquoted investment company, to his daughter.

Before the transfer, Marcus owned all of Scarum Ltd's issued share capital of 100,000 £1 ordinary shares. On 17 March 2012, Scarum Ltd's shares were worth £5 each for a holding of 30%, £9 each for a holding of 70%, and £12 each for a holding of 100%.

The nil rate band for the tax year 2005–06 is £275,000, and for the tax year 2011–12 it is £325,000.

Under the terms of his will, Marcus left his entire estate to his wife.

Required:

Calculate the inheritance tax which will be payable as a result of Marcus's death.

Note: You should ignore the inheritance tax annual exemption. (7 marks)

(10 marks)

- 3 Smart Ltd commenced trading on 1 September 2014. The company's sales for the first four months of trading were as follows:

2014	£
September	26,000
October	47,000
November	134,000
December	113,000

On 1 November 2014, the company signed a contract valued at £86,000 for completion during November 2014.

All of the above figures are stated exclusive of value added tax (VAT). Smart Ltd only supplies services and all of the company's supplies are standard rated.

Smart Ltd allows its customers 60 days credit when paying for services, and it is concerned that some customers will default on the payment of their debts. The company pays its purchase invoices as soon as they are received.

Smart Ltd does not use either the VAT cash accounting scheme or the annual accounting scheme.

Required:

- (a) **State, giving reasons, the date from which Smart Ltd was required to register for value added tax (VAT), and by when it was required to notify HM Revenue and Customs (HMRC) of the registration.** (3 marks)
- (b) **State how and when Smart Ltd will have to submit its quarterly VAT returns and pay any related VAT liability.**
Note: You are not expected to cover substantial traders or the election for monthly returns. (2 marks)
- (c) **State the circumstances when a VAT registered business like Smart Ltd, which is not using the VAT cash accounting scheme, would still have to account for output VAT at the time that payment is received from a customer.** (2 marks)
- (d) **Advise Smart Ltd as to why it should be beneficial for the company to use the VAT cash accounting scheme.** (3 marks)

(10 marks)

- 4 (a) Amanda, Beatrice and Claude have been in partnership since 1 November 2008, preparing accounts to 31 October annually. Daniel joined as a partner on 1 May 2014. Profits have always been shared equally. The partnership's recent tax-adjusted trading profits are as follows:

	£
Year ended 31 October 2013	147,000
Year ended 31 October 2014	96,000
Year ended 31 October 2015 (forecast)	180,000

Required:

Calculate Daniel's trading income assessment for the tax year 2014–15. (3 marks)

- (b) Francine is employed by Fringe plc. On 1 August 2014, Fringe plc provided Francine with a loan of £96,000 to help her purchase a holiday cottage. On 1 October 2014, the loan was increased by a further £14,000 so that Francine could renovate the cottage. Francine pays interest at an annual rate of 1.5% on this loan.

The taxable benefit in respect of this loan is calculated using the average method.

Required:

Calculate Francine's taxable benefit for the tax year 2014–15 in respect of the loan from Fringe plc. (3 marks)

- (c) Gregor has been self-employed since 6 April 2001. He has the following income and chargeable gains for the tax years 2013–14 and 2014–15:

	2013–14	2014–15
	£	£
Trading profit/(loss)	14,700	(68,800)
Business property profit/(loss)	4,600	(2,300)
Building society interest (gross)	1,300	900
Chargeable gain/(loss)	(2,900)	17,400

Required:

On the assumption that Gregor relieves his trading loss of £68,800 as early as possible, calculate the amount of trading loss carried forward to the tax year 2015–16.

Note: You should assume that the tax allowances for the tax year 2014–15 apply throughout. (4 marks)

(10 marks)

- 5** Samson and Delilah are a married couple. Samson was born on 24 June 1964 and Delilah was born on 6 May 1962. They are both employed by Rope plc, and Delilah is also a partner in a partnership. The following information is available in respect of the tax year 2014–15:

Samson

During the tax year 2014–15, Samson was paid a gross annual salary of £112,000 in respect of his employment with Rope plc.

Delilah

- (1) During the tax year 2014–15, Delilah was paid a gross annual salary of £184,000 in respect of her employment with Rope plc.
- (2) Throughout the tax year 2014–15, Rope plc provided Delilah with a petrol powered motor car which has a list price of £67,200, and an official CO₂ emission rate of 207 grams per kilometre. Rope plc does not provide Delilah with any fuel for private journeys. Delilah was unable to drive her motor car for a period during the tax year 2014–15 because of a skiing accident, and during this period Rope plc provided her with a chauffeur at a total cost of £9,400.
- (3) Delilah pays an annual professional subscription of £450 which is relevant to her employment with Rope plc. Delilah also pays an annual membership fee of £1,420 to a golf club which she uses to entertain Rope plc's clients. Rope plc does not reimburse Delilah for either of these costs.
- (4) During the tax year 2014–15, Delilah donated £250 (gross) per month to charity under the payroll deduction scheme operated by Rope plc.
- (5) Delilah has been in partnership with Esther and Felix for a number of years. The partnership's tax adjusted trading profit for the year ended 31 December 2014 was £93,600. Esther is paid an annual salary of £8,000, with the balance of profits being shared 40% to Delilah, 30% to Esther and 30% to Felix.
- (6) During the tax year 2014–15, Delilah paid interest of £6,200 (gross) on a personal loan taken out to purchase her share in the partnership.
- (7) During the tax year 2014–15, Delilah made charitable gift aid donations totalling £6,000 (gross).

Joint income – Building society deposit account

Samson and Delilah have savings in a building society deposit account which is in their joint names. During the tax year 2014–15, they received building society interest totalling £9,600 (gross) from this joint account.

Required:

- (a) Calculate Samson and Delilah's respective income tax liabilities for the tax year 2014–15.**

Note: The following mark allocation is provided as guidance for this requirement:

Samson (3.5 marks)
Delilah (9.5 marks)

(13 marks)

- (b) Calculate Samson's income tax saving for the tax year 2014–15 if the building society deposit account had been in Delilah's sole name instead of in joint names for the entire year.**

(2 marks)

(15 marks)

6 Lucky Ltd was incorporated on 20 July 2014, and commenced trading on 1 December 2014. The following information is available for the four-month period 1 December 2014 to 31 March 2015:

- (1) The operating profit for the four-month period ended 31 March 2015 is £532,600. Advertising expenditure of £4,700 (incurred during September 2014), depreciation of £14,700, and amortisation of £9,000 have been deducted in arriving at this figure.

The amortisation relates to a premium which was paid on 1 December 2014 to acquire a leasehold warehouse on a 12-year lease. The amount of premium assessed on the landlord as income was £46,800. The warehouse was used for business purposes by Lucky Ltd throughout the period ended 31 March 2015.

- (2) Lucky Ltd purchased the following assets during the period 20 July 2014 to 31 March 2015:

		£
19 August 2014	Computer	6,300
22 January 2015	Integral features	141,200
31 January 2015	Office equipment	32,900
17 March 2015	Motor car	12,800

The integral features of £141,200 are in respect of expenditure on electrical systems, a ventilation system and lifts which are integral to a freehold office building owned by Lucky Ltd.

The motor car has a CO₂ emission rate of 82 grams per kilometre.

- (3) Lucky Ltd made a loan to another company for non-trading purposes on 1 February 2015. Loan interest income of £700 was accrued at 31 March 2015.

Required:

- (a) **State when an accounting period starts for corporation tax purposes.** (2 marks)

- (b) **Calculate Lucky Ltd's corporation tax liability for the four-month period ended 31 March 2015.**

Note: Your computation should commence with the operating profit of £532,600, and should also indicate by the use of zero (0) any items referred to in the question for which no adjustment is required. (11 marks)

- (c) **Advise Lucky Ltd as to how long it must retain the records used in preparing its self-assessment corporation tax return for the four-month period ended 31 March 2015, and the potential consequences of not retaining the records for the required period.** (2 marks)

(15 marks)

End of Question Paper