
Answers

Section A

Marks

1 A

£50,000 minus the balance of the 2015–16 AE of £1,000 (3,000 – 2,000 PET) minus the balance of the 2014–15 AE of £500 (3,000 – 2,500) = £48,500.

2 C

$168 - (72 - 18) = 114$ months.

3 C

£40,000 (2015–16) + 2012–13 £0 (contribution exceeds £50,000) + 2013–14 £13,000 (50,000 – 37,000) + 2014–15 £12,000 (40,000 – 28,000) = £65,000.

4 B

$47,700 \times 90\% / 9 = £4,770$

5 B

Lili Ltd can deduct the research into competitors incurred on 6 June 2010 (£12,000) and the donation to the local school on 15 December 2014 (£2,000), i.e. a total of £14,000. It cannot deduct the initial market research as it was incurred more than seven years before the commencement of trade, nor the costs of entertaining customers and suppliers as this is disallowable expenditure under the normal rules.

6 D

$((42,385 - 8,060) \times 9\%) + ((48,000 - 42,385) \times 2\%) = £3,201$

7 B

Corporation tax is a tax on the profits of companies, not the turnover. Inheritance tax is an tax on the transfer of assets not income. VAT is an indirect tax not a direct tax.

8 C

If a taxpayer submits a paper return on time, they can ask HMRC to calculate the tax due. Tax returns submitted electronically automatically calculate the tax due.

9 A

Eric – less than 46 days and not previously resident.

Fran – resident during the previous three years, so to be automatically not resident she must be in the UK for less than 16 days.

10 D

The market value when first made available less the taxable benefit in respect of the private use in 2014–15 ($2,000 - (2,000 \times 20\%) = £1,600$), as this is higher than the market value at the date of transfer (£1,400).

11 C

$190,000 ((500,000 - 25,000 (325,000 - 300,000)) \text{ at } 40\%) \text{ less } 40\% (4 - 5 \text{ years}) = £114,000$

12 D

Interest will be charged from 1 February 2017 to 30 June 2017:

$$1,200 \times 3\% \times 5/12 = \text{£}15$$

A penalty will be imposed since the payment is more than 30 days late:

$$1,200 \times 5\% = \text{£}60$$

13 A

$$102,800 - 10,100 - 79,400 - 6,800 = \text{£}6,500$$

14 B

The CGT due date will be the same whether the asset is split between spouses (or civil partners) or not.

15 D

$$4,840/2 = \text{£}2,420$$

2 marks each

30**Section B****16 D**

$$325,000 + (325,000 \times 80\%) = \text{£}585,000$$

17 A

$$220,000 + 43,700 = \text{£}263,700$$

18 C

It will be the personal representatives of someone's estate who will be responsible for paying any IHT on the death estate and this must be done by six months after the END OF THE MONTH of death

19 C

£0. Neither gift would have made any difference to the amount payable.

20 B

$$(650,000 \text{ at } 40\%) - 52,250 = \text{£}207,750$$

21 C

$$(138,600 + 23,400) \times 0.413 (258.0 - 182.6)/182.6 = \text{£}66,906$$

22 A

$$272,000 - (120,700 - (364,000 - 272,000)) = \text{£}243,300$$

23 D

The gain will crystallise at the latest of the date the replacement is disposed of, the date the replacement ceases to be used for trade purposes and ten years from the date of the replacement's acquisition. This is therefore ten years from the date of the replacement's acquisition on 30 September 2016.

24 B

$$(90,000 + (90,000 \times \frac{2}{3} \times 6.40)) \times 20,000 / (90,000 + (90,000 \times \frac{2}{3})) = \text{£}63,200$$

25 D

$$((27,900 - 11,100) \text{ at } 28\%) + (142,200 \text{ at } 10\%) = \text{£}18,924$$

26 B

$$((7,500 + 10,000) \times 4) + 13,500 = \text{£}83,500.$$

The historic test is met by 30 September 2015. Alisa should therefore have notified HMRC by 30 October 2015, with registration effective from 1 November 2015.

27 D

$$((240 \times 20/120) + (180 \times 20\%)) \times 6 = \text{£}456$$

28 C

$$(456 + 624) \times 20/120 = \text{£}180$$

29 B

All businesses must make their VAT payments electronically and this must be done no later than one month and seven days after the end of the quarter, i.e. 7 May 2016.

30 A

A customer's VAT registration number is not required to be included on a valid VAT invoice.

2 marks each

30

31 Joe

Profits withdrawn entirely as director's remuneration

(1) Joe's income tax liability 2015–16:

| | | |
|-------------------------|---------------|---|
| | £ | |
| Director's remuneration | 59,859 | |
| Personal allowance | (10,600) | ½ |
| Taxable income | <u>49,259</u> | |
| Income tax | | |
| £ | | |
| 31,785 at 20% | 6,357 | ½ |
| 17,474 at 40% | 6,990 | ½ |
| <u>49,259</u> | | |
| Income tax liability | <u>13,347</u> | |

(2) Joe's employee class 1 national insurance contributions (NIC) for 2015–16 are £4,468 (((42,385 – 8,060) at 12%) + (59,859 – 42,385) at 2%).

1½

(3) There is no corporation tax liability for OK-Joe Ltd as the profits are entirely withdrawn as director's remuneration.

½

Profits withdrawn as a mix of director's remuneration and dividends

(1) Joe's income tax liability 2015–16:

| | | |
|--|---------------|---|
| | £ | |
| Director's remuneration | 8,000 | |
| Dividends (45,600 x 100/90) | 50,667 | 1 |
| | <u>58,667</u> | |
| Personal allowance | (10,600) | ½ |
| Taxable income | <u>48,067</u> | |
| Income tax | | |
| £ | | |
| 31,785 at 10% | 3,178 | ½ |
| 16,282 at 32.5% | 5,292 | ½ |
| <u>48,067</u> | | |
| Income tax liability | <u>8,470</u> | |
| Tax suffered at source (48,067 at 10%) | (4,807) | ½ |
| Income tax payable | <u>3,663</u> | |

(2) There will be no class 1 NIC for either Joe or OK-Joe Ltd as the earnings of £8,000 are below the NIC lower thresholds.

1

(3) OK-Joe Ltd corporation tax liability for the year ended 5 April 2016:

| | | |
|---------------------------------|---------------|---|
| | £ | |
| Trading profit | 65,000 | ½ |
| Director's remuneration | (8,000) | ½ |
| Taxable total profits | <u>57,000</u> | |
| Corporation tax (57,000 at 20%) | <u>11,400</u> | ½ |

(4) The overall tax and NIC saving if Joe extracts profits using a mix of director's remuneration and dividends is £7,893 (22,956 (13,347 + 4,468 + 5,141) – 15,063 (3,663 + 11,400)).

1

10

Tutorial note: The dividends tax credit deduction is restricted to 10% of taxable income, so only £4,807 of the tax credit of £5,067 (50,667 at 10%) can be deducted.

- 32 (a) (1) The application of the basis period rules is more straightforward.
 (2) There will be no overlap profits.
 (3) The basis period in the year of cessation will be a maximum of 12 months in length, rather than the potential 23 months which could arise with a 30 April year end.

1 mark per point to a maximum of 2

(b) Ashura – Trading loss for the nine-month period ended 5 April 2016

| | | |
|------------------------------|----------------|-----|
| | £ | |
| Trading loss | (3,300) | |
| Advertising expenditure | (800) | 1 |
| Use of office (4,350 x 1/5) | (870) | 1 |
| Capital allowances (working) | <u>(2,960)</u> | W ½ |
| Revised trading loss | <u>(7,930)</u> | |

Working – Capital allowances

| | Main pool £ | Motor car £ | Allowances £ | |
|---------------------|-------------------|------------------------------|-----------------|----------|
| Additions | | | | |
| Laptop computer | 2,600 | | | ½ |
| Motor car | | 19,200 | | ½ |
| AIA – 100% | (2,600) | | 2,600 | 1 |
| WDA – 8% x 9/12 | <u> </u> | <u>(1,152) x 2,500/8,000</u> | <u>360</u> | 1½ |
| WDV carried forward | <u>0</u> | <u>18,048</u> | <u>2,960</u> | <u>6</u> |

Tutorial notes:

- (1) The advertising expenditure incurred during January 2015 is pre-trading, and is treated as incurred on 1 July 2015. An adjustment is therefore required.
 (2) Ashura’s motor car has CO₂ emissions over 130 grams per kilometre, and therefore only qualifies for writing down allowances at the rate of 8%.
 (3) The laptop computer purchased on 10 June 2015 is pre-trading capital expenditure, and is therefore treated as incurred on 1 July 2015.

- (c) (1) The loss of £7,930 would be relieved against total income for 2012–13 to 2014–15, earliest year first. 1
 (2) Ashura’s total income for 2012–13 of £10,400 is already covered by her personal allowance of £10,600, so a loss relief claim against this year would not result in any tax saving. 1
2

(d) Ashura – Taxable income 2015–16

| | £ | |
|--|---------------|-----------|
| Employment income | | |
| Salary | 56,200 | ½ |
| Mileage allowance (3,400 at 10p (55p – 45p)) | 340 | 1 |
| Pension contributions – Occupational | (2,800) | ½ |
| – Personal pension | 0 | ½ |
| Subscriptions – Professional | (320) | ½ |
| – Health club | 0 | ½ |
| | <u>53,420</u> | |
| Loss relief | (7,930) | 1 |
| | <u>45,490</u> | |
| Personal allowance | (10,600) | ½ |
| Taxable income | <u>34,890</u> | |
| | | <u>5</u> |
| | | 15 |

Tutorial notes:

- (1) *The personal pension scheme contribution does not affect the calculation of taxable income, but will instead extend Ashura's basic rate tax band by £3,400.*
- (2) *The health club subscription is not an allowable deduction because membership is not necessary for Ashura to carry on her employment.*
- (3) *The loss relief cap does not apply because Ashura's trading loss is less than the greater of £50,000 and 25% of her total income.*

33 (a) Tenth Ltd – Taxable total profits for the four-month period ended 31 July 2015

| | £ | |
|--------------------------------------|---------------|------|
| Trading profit | 52,400 | ½ |
| Balancing charge (working 1) | 15,300 | W1 ½ |
| | <u>67,700</u> | |
| Revised trading profit | 67,700 | |
| Property business income (working 2) | 1,500 | W2 |
| Chargeable gain (180,300 – 164,500) | 15,800 | 1 |
| | <u>85,000</u> | |
| Qualifying charitable donations | (800) | ½ |
| Taxable total profits | <u>84,200</u> | |

Working 1 – Balancing charge

| | Main pool £ | Charge £ | |
|---------------------------|-----------------|-----------------|---|
| WDV brought forward | 12,400 | | ½ |
| Addition | 1,800 | | 1 |
| Proceeds (28,200 + 1,300) | (29,500) | | 1 |
| | <u>(15,300)</u> | | |
| Balancing charge | <u>15,300</u> | <u>(15,300)</u> | ½ |

Working 2 – Property business income

| | £ | |
|-----------------------------|--------------|----------|
| Rent receivable (1,200 x 4) | 4,800 | ½ |
| Impairment loss | (1,200) | ½ |
| Running costs (6,300 x 1/3) | (2,100) | ½ |
| Property business income | <u>1,500</u> | |
| | | <u>7</u> |

(b) Eleventh Ltd – Tax adjusted trading profit for the six-month period ended 31 March 2016

| | £ | |
|---|----------------|------|
| Operating profit | 122,900 | ½ |
| Depreciation | 2,580 | ½ |
| Amortisation | 2,000 | ½ |
| Deduction for lease premium (working 1) | (1,440) | W1 ½ |
| Interest payable (100,000 x 5% x 6/12) | (2,500) | 1 |
| Capital allowances (working 2) | (14,334) | W2 |
| Trading profit | <u>109,206</u> | |

Working 1 – Deduction for lease premium

| | £ | |
|---|---------------|---|
| Premium paid | 60,000 | |
| Less: 60,000 x 2% x (15 – 1) | (16,800) | |
| Amount assessed on the landlord as income | <u>43,200</u> | 1 |
| Deduction (43,200/15 years x 6/12) | <u>1,440</u> | 1 |

Working 2 – Capital allowances

| | £ | Main pool £ | Allowances £ | |
|-----------------------------|-----------------|----------------|-----------------|---|
| Addition – Motor car [1] | | 12,600 | | ½ |
| WDA – 18% x 6/12 | | (1,134) | 1,134 | 1 |
| Addition qualifying for FYA | | | | |
| Motor car [2] | 13,200 | | | ½ |
| FYA – 100% | <u>(13,200)</u> | | 13,200 | 1 |
| | | <u>0</u> | | |
| WDV carried forward | | <u>11,466</u> | | |
| Total allowances | | | <u>14,334</u> | |

8**15****Tutorial notes:**

- (1) The first motor car has CO₂ emissions between 76 and 130 grams per kilometre, and therefore qualifies for writing down allowances at the rate of 18%.
- (2) The second motor car has CO₂ emissions up to 75 grams per kilometre, and therefore qualifies for the 100% first year allowance. The private use of the motor car is irrelevant because there are no private use adjustments in respect of a company.

Additional marking guide for section C

Marks available Marks awarded

31 Joe

| | |
|--|------------------|
| Profits withdrawn as director's remuneration | |
| Income tax | 1½ |
| NIC | 1½ |
| Corporation tax | ½ |
| Profits withdrawn as a mix of director's remuneration and dividends | |
| Income tax | 3 |
| NIC | 1 |
| Corporation tax | 1½ |
| Saving | 1 |
| Total marks | <u>10</u> |

32 Ashura

| | |
|---------------------------------------|------------------|
| (a) Advantages of basis period | |
| Two advantages | 2 |
| | <u>2</u> |
| (b) Trading loss | |
| Trading loss | 2½ |
| Capital allowances | 3½ |
| | <u>6</u> |
| (c) Early year loss relief | |
| Loss relief | 2 |
| | <u>2</u> |
| (d) Taxable income | |
| Salary | ½ |
| Mileage | 1 |
| Pension | 1 |
| Subscriptions | 1 |
| Loss | 1 |
| Personal allowance | ½ |
| | <u>5</u> |
| Total marks | <u>15</u> |

33 Tenth Ltd and Eleventh Ltd

| | |
|---|------------------|
| (a) Tenth Ltd – Taxable total profits | |
| Taxable total profits | 2½ |
| Balancing charge | 3 |
| Property business income | 1½ |
| | <u>7</u> |
| (b) Eleventh Ltd – Tax adjusted trading profit | |
| Profit and add-backs | 1½ |
| Interest payable | 1 |
| Lease premium | 2½ |
| Capital allowances | 3 |
| | <u>8</u> |
| Total marks | <u>15</u> |