# Answers

*Marks*

**1 (a) Richard Tryer – Income tax computation 2013–14**

| | £ | £ | Marks |
|---|---|---|---|
| Trading profit (working 1) | | 11,592 | W1 |
| Employment income | | | |
| Salary | 41,000* | | |
| Car benefit (working 2) | 2,380 | | W2 |
| Fuel benefit (21,100 x 20% x 9/12) | 3,165 | | 1½ |
| Living accommodation (working 3) | 13,200 | | W3 |
| Furniture (12,100 x 20%) | 2,420 | | 1 |
| Running costs | 3,700 | | ½ |
| | | 65,865 | |
| Property business profit (working 4) | | 6,920 | W4 |
| Building society interest | | 1,260* | |
| Dividends (180 x 100/10) | | 1,800 | ½ |
| | | 87,437 | |
| Personal allowance | | (9,440)* | |
| Taxable income | | 77,997 | |
| £ | | | |
| 32,010 at 20% | | 6,402* | |
| 44,187 (77,997 – 1,800 – 32,010) at 40% | | 17,675 | ½ |
| 1,800 at 32·5% | | 585 | ½ |
| 77,997 | | | |
| Income tax liability | | 24,662 | |
| Tax suffered at source | | | |
| PAYE | 9,130* | | |
| Building society interest (1,260 at 20%) | 252 | | ½ |
| Dividends | 180* | | |
| | | (9,562) | |
| Income tax payable | | 15,100 | |

* Figures provided in question. 1

**Tutorial note:** *The amount of gross dividends are not given, but can be calculated from the 10% tax credit figure at the rate of 100/10.*

**Working 1 – Trading profit**

| | £ | | £ | Marks |
|---|---|---|---|---|
| Period ended 30 April 2013 | | | 3,840 | ½ |
| Period ended 30 April 2014 | 12,060 | | | |
| Capital allowances (18,000 x 8% x 30%) | (432) | | | 2 |
| | 11,628 | x 8/12 | 7,752 | 1 |
| | | | 11,592 | |

**Tutorial notes:**

*(1) The basis period for 2013–14 is the first 12 months of trading.*

*(2) The motor car has $CO_2$ emissions over 130 grams per kilometre, and therefore qualifies for writing down allowances at the rate of 8%.*

**Working 2 – Car benefit**

(1) The relevant percentage for the car benefit is 20% (11% + 9% (140 – 95 = 45/5)). 1

(2) The motor car was available throughout 2013–14, so the benefit is £2,380 (3,580 (17,900 x 20%) – 1,200). 1

**Working 3 – Living accommodation**

(1) The benefit for the living accommodation is the higher of the annual value of £8,600 and the rent paid of £13,200 (1,100 x 12). 1½

(2) There is no additional benefit because the property was not owned by Prog plc. ½

| | | | Marks |
|---|---|---|---|
| **Working 4 – Property business profit** | | | |
| | £ | £ | |
| Premium received | | 12,000 | |
| *Less:* 12,000 x 2% x (30 – 1) | | (6,960) | |
| | | 5,040 | 1 |
| Rent receivable (830 x 4) | | 3,320 | 1 |
| | | 8,360 | |
| Roof replacement | 0 | | 1 |
| Advertising | 800 | | ½ |
| Roof repairs (8,600 – 8,200) | 400 | | 1 |
| Insurance (480 x 6/12) | 240 | | 1 |
| | | (1,440) | |
| Property business profit | | 6,920 | |
| | | | 19 |

**Tutorial note:** *The initial replacement cost of the shop's roof is not deductible, being capital in nature, as the building was not in a usable state when purchased and this fact was reflected in the reduced purchase price.*

**(b)** (1) Richard's adjusted net income of £87,437 exceeds £60,000, so the child benefit income tax charge will be £1,752 (the amount of child benefit received). 1

(2) The tax charge will be collected through the self-assessment system along with the income tax payable of £15,100. 1

2

**(c)** (1) Richard was not a member of a pension scheme prior to 2013–14, so the annual allowances for 2010–11, 2011–12 and 2012–13 are not available. 1

(2) Although net relevant earnings are £77,457 (11,592 + 65,865), the maximum amount of tax relievable personal pension contribution is effectively restricted to the annual allowance of £50,000 for 2013–14. 1

(3) Personal pension contributions are made net of basic rate tax, so Richard would have paid £40,000 (50,000 less 20%) to the pension company. 1

(4) Higher rate tax relief would have been given by extending Richard's basic rate tax band for 2013–14 by £50,000, being the gross amount of the pension contribution. 1

4

**25**

**2 (a) Long Ltd – Corporation tax computation for the year ended 31 March 2014**

| | £ | |
|---|---|---|
| Operating profit | 384,400 | |
| Depreciation | 43,050 | ½ |
| Lease of motor car (3,600 x 15%) | 540 | 1 |
| Capital allowances (working 1) | (47,690) | W1 |
| Trading profit | 380,300 | |
| Group relief from Road Ltd | (34,900) | 1½ |
| Taxable total profits | 345,400 | |
| Franked investment income (working 2) | 32,000 | W2 |
| Augmented profits | 377,400 | |
| Corporation tax (345,400 at 23%) | 79,442 | ½ |
| Marginal relief (working 3) | | |
| 3/400 (500,000 – 377,400) x 345,400/377,400 | (842) | W3 1 |
| | 78,600 | |

*Marks*

**Tutorial notes:**

*(1) The leased motor car has $CO_2$ emissions of more than 130 grams per kilometre, so 15% of the leasing costs are disallowed.*

*(2) Group relief is not restricted as the amount claimed is clearly less than 3/12ths of Long Ltd's taxable total profits.*

**Working 1 – Plant and machinery**

| | | Main pool | Allowances | |
|---|---|---|---|---|
| | £ | £ | £ | |
| WDV brought forward | | 44,800 | | ½ |
| Addition qualifying for AIA | | | | |
| Lorry | 36,800 | | | ½ |
| AIA – 100% | (36,800) | 0 | 36,800 | ½ |
| Addition – Motor car | | 15,700 | | ½ |
| | | 60,500 | | |
| WDA – 18% | | (10,890) | 10,890 | ½ |
| WDV carried forward | | 49,610 | | |
| Total allowances | | | 47,690 | |

**Tutorial note:** *The motor car has $CO_2$ emissions between 96 and 130 grams per kilometre, and therefore qualifies for writing down allowances at the rate of 18%. The private use of the motor car is irrelevant, since such usage will be assessed on the managing director as a benefit.*

**Working 2 – Franked investment income**

(1) Franked investment income is £32,000 (28,800 x 100/90). 1

(2) The dividend from Wind Ltd is a group dividend, and is therefore not franked investment income. ½

**Working 3 – Lower and upper limits**

(1) Long Ltd, Wind Ltd and Road Ltd are associated companies, so their lower and upper limits are respectively reduced to £100,000 (300,000/3) and £500,000 (1,500,000/3). ½

**Wind Ltd – Corporation tax computation for the year ended 31 March 2014**

| | £ | |
|---|---|---|
| Operating profit | 62,900 | |
| Amortisation | 5,000 | ½ |
| Deduction for lease premium (68,200/20) | (3,410) | 1 |
| Capital allowances (900 x 100%) | (900) | 1 |
| Trading profit | 63,590 | |
| Chargeable gain (29,800 – 21,300) | 8,500 | 1½ |
| Taxable total profits | 72,090 | |
| Corporation tax | | |
| 72,090 at 20% | 14,418 | ½ |

**Tutorial notes:**

*(1) The office building has been used for business purposes, and so the proportion of the lease premium assessed on the landlord can be deducted, spread over the life of the lease.*

*(2) The balance on the main pool is less than £1,000, so a writing down allowance equal to the unrelieved expenditure can be claimed.*

*(3) A joint election can be made so that Wind Ltd is treated as having made Long Ltd's capital loss. It is beneficial for the balance of the chargeable gain to remain in Wind Ltd as it is subject to corporation tax at the small profits rate of 20%.*

| | £ | Marks |
|---|---|---|
| **Road Ltd – Trading loss for the period ended 31 March 2014** | | |
| Operating loss | (26,100) | |
| Donations | 2,800 | ½ |
| Capital allowances | (11,600) | 1½ |
| Surrendered as group relief | (34,900) | |

**Tutorial notes:**

(1) *The motor car purchased on 3 October 2013 is pre-trading and is treated as incurred on 1 January 2014. The motor car has $CO_2$ emissions up to 95 grams per kilometre and therefore qualifies for the 100% first year allowance.*

(2) *It is beneficial for Road Ltd to surrender its trading loss to Long Ltd as that company is subject to corporation tax at the marginal rate of 23·75%, whereas Wind Ltd and Road Ltd are only subject to corporation tax at the small profits rate of 20%.*

| **Road Ltd – Corporation tax computation for the period ended 31 March 2014** | £ | |
|---|---|---|
| Interest income | 4,300 | ½ |
| Qualifying charitable donations | (2,400) | ½ |
| Taxable total profits | 1,900 | |
| Corporation tax | | |
| 1,900 at 20% | 380 | ½ |
| | | 17 |

**Tutorial note:** *The qualifying charitable donations cannot be surrendered as group relief as they are fully relieved against Road Ltd's interest income.*

**(b) PAYE real time reporting**

| | | |
|---|---|---|
| (1) | Real time PAYE information must be filed electronically, so Road Ltd will have to either run payroll software or use the services of a payroll provider. | 1 |
| (2) | Road Ltd will have to send real time PAYE information to HM Revenue and Customs electronically by the end of each calendar month (the time when employees are paid). | ½ |
| (3) | Form P60 must be provided to employees following the end of the tax year. | ½ |
| (4) | Form P11D/P9D detailing the benefits provided to the employees must be submitted to HM Revenue and Customs following the end of the tax year, with a copy provided to the employees. In addition, Form P11D(b) should be submitted detailing Class 1A national insurance contributions. | 1 |
| | | 3 |

**(c) Long Ltd – VAT return for the quarter ended 31 March 2014**

| | £ | £ | |
|---|---|---|---|
| **Output VAT** | | | |
| Sales (52,640 – 1,760) | | 50,880 | 1 |
| Group sales (1,940 + 960) | | 2,900 | 1 |
| Charge to director (140 x 40%) | | 56 | 1 |
| **Input VAT** | | | |
| Expenses | 14,720 | | 1 |
| Fuel | 140 | | 1 |
| Hire of photocopier (18 x 51) | 918 | | 1½ |
| | | (15,778) | |
| VAT payable | | 38,058 | |

**Tutorial notes:**

(1) *The tax point for the deposit is the date of payment, so this will have been included in output VAT for the quarter ended 31 December 2013.*

(2) *No adjustment is required in respect of the repairs to the motor car as such input VAT can be reclaimed provided there is some business use.*

*Marks*

(3) *Refunds of VAT are subject to a four-year time limit, so in addition to the input VAT for the hire of the photocopier incurred during the quarter ended 31 March 2014, Long Ltd can also claim for the input VAT incurred during the period 1 January 2010 to 31 December 2013.*

**Wind Ltd – quarter ended 31 March 2014**

| | £ | Marks |
|---|---|---|
| **Output VAT** | 0 | 1 |
| **Input VAT** | 0 | ½ |
| VAT payable/recoverable | 0 | |

**Tutorial note:** *Wind Ltd's sales are exempt from VAT, so the company cannot be registered for VAT.*

**Road Ltd – VAT return for the quarter ended 31 March 2014**

| | £ | £ | Marks |
|---|---|---|---|
| **Output VAT** | | 0 | ½ |
| **Input VAT** | | | |
| Expenses | 3,120 | | ½ |
| Advertising | 380 | | 1 |
| | | (3,500) | |
| VAT recoverable | | (3,500) | |
| | | | 10 |
| | | | **30** |

**Tutorial note:** *Input VAT on services incurred prior to registration is subject to a six-month time limit, so the input VAT of £640 in respect of the advertising expenditure incurred during April 2013 cannot be recovered.*

**3 (a) Mick Stone – Chargeable gains 2013–14**

**Freehold warehouse**

| | £ | £ | |
|---|---|---|---|
| Disposal proceeds | | 522,000 | ½ |
| Cost | 258,000 | | ½ |
| Enhancement expenditure – Extension | 99,000 | | ½ |
| – Floor | 0 | | ½ |
| | | (357,000) | |
| Chargeable gain | | 165,000 | |

**Tutorial note:** *The cost of replacing the warehouse's floor is revenue expenditure as the floor is a subsidiary part of the property.*

**Land**

| | £ | |
|---|---|---|
| Disposal proceeds | 81,700 | ½ |
| Cost | (39,109) | W |
| Chargeable gain | 42,591 | |

**Working – Cost**

(1) The cost relating to the acre of land sold is £39,109 (167,400 x 81,700/349,700 (81,700 + 268,000)). 1½

**Rolling Ltd**

| | £ | |
|---|---|---|
| Disposal proceeds | 3,675,000 | ½ |
| Cost | (537,600) | W |
| Chargeable gain | 3,137,400 | |

| | | | Marks |
|---|---|---|---|
| **Working – Share pool** | | | |
| | **Number** | **Cost £** | |
| Purchase June 2005 | 500,000 | 960,000 | ½ |
| Bonus issue December 2010 500,000 x 3/2 | 750,000 | 0 | 1 |
| | 1,250,000 | 960,000 | |
| Disposal September 2013 960,000 x 700,000/1,250,000 | (700,000) | (537,600) | ½ |
| Balance carried forward | 550,000 | 422,400 | |

**Sugar plc**

| | £ | |
|---|---|---|
| Deemed proceeds (24,000 x £6·95) | 166,800 | W ½ |
| Cost | (76,800) | ½ |
| Chargeable gain | 90,000 | |

**Working – Cost**

(1) The shares in Sugar plc are valued at £6·95 ((£6·85 + £7·05)/2) as this is lower than £7·01 (£6·98 + ¼(£7·10 – £6·98)). 1½

9

**(b) Freehold warehouse**

(1) Rollover relief may be available in respect of the chargeable gain arising on the disposal of the freehold warehouse. 1

(2) The acquisition date of the replacement warehouse is required, since relief will only be available if this is after 19 May 2012 (one year before the date of disposal). 1

(3) The cost of the replacement warehouse is required, since relief will be restricted if the sale proceeds of £522,000 have not been fully reinvested. 1

**Rolling Ltd**

(1) Entrepreneurs' relief may be available in respect of the chargeable gain arising on the disposal of the shares in Rolling Ltd. 1

(2) Details of Rolling Ltd's share capital are required, since relief will only be available if Mick had the minimum required holding (and voting rights) of 5%. 1

(3) Details of any previous entrepreneurs' relief claims made by Mick are required, since there is a lifetime limit of £10 million of gains. 1

6

**15**

**Tutorial note:** *The disposal of the ordinary shares in Sugar plc does not qualify for either entrepreneurs' relief (less than the minimum required holding of 5% and Mick is not an officer or an employee of the company) or gift relief (not a trading company).*

**4 (a) (i) Chi Needle – Income tax liability 2013–14**

| | £ | |
|---|---|---|
| Trading profit | 52,400 | ½ |
| Personal allowance | (9,440) | ½ |
| Taxable income | 42,960 | |
| £ | | |
| 32,010 at 20% | 6,402 | ½ |
| 10,950 at 40% | 4,380 | ½ |
| 42,960 | | |
| Income tax liability | 10,782 | |
| | | 2 |

*Marks*

**(ii) Chi Needle – National insurance contributions**

(1) Class 2 national insurance contributions for 2013–14 will be £140 (52 x 2·70). 1

(2) Class 4 national insurance contributions for 2013–14 will be £3,252 ((41,450 – 7,755 = 33,695 at 9%) + (52,400 – 41,450 = 10,950 at 2%)). 2

3

**(iii) Chi Needle – Tax payments**

(1) Chi's balancing payment for 2013–14 will be £14,034 (10,782 + 3,252). 1½

(2) In addition, she will have to make the first payment on account for 2014–15 of £7,017 (14,034 x 50%). 1

(3) The total amount payable on 31 January 2015 will therefore be £21,051 (14,034 + 7,017). ½

3

**Tutorial note:** *Although the due dates for class 2 national insurance contributions are similar to those for self-assessment, it is not paid under self-assessment.*

**(b)** (1) Unless the return is issued late, the latest date that Chi can file a paper self-assessment tax return for 2013–14 is 31 October 2014. 1

(2) Should Chi wish to make an amendment to this return, then the deadline for doing so will be 31 January 2016 (12 months from the latest (electronic) filing date for the return of 31 January 2015). 1

2

**(c) Chi Needle – Trading profit for the year ended 5 April 2014 using the cash basis**

| | £ | £ | Marks |
|---|---|---|---|
| **Revenue** (71,900 – 1,600) | | 70,300 | 1 |
| **Expenses** | | | |
| Motor expenses (working) | 5,300 | | W |
| Other expenses (8,200 – 900) | 7,300 | | 1 |
| Office equipment | 4,020 | | 1 |
| Capital allowances | 0 | | ½ |
| | | (16,620) | |
| Trading profit | | 53,680 | |

**Working – Motor expenses**

| | £ | Marks |
|---|---|---|
| 10,000 miles at 45p | 4,500 | |
| 3,200 miles at 25p | 800 | |
| | 5,300 | 1½ |
| | | 5 |
| | | **15** |

**Tutorial note:** *Capital allowances are not relevant, since purchases of equipment are deducted as an expense. The running and capital costs of owning a motor car are replaced by the deduction based on approved mileage allowances.*

*Marks*

**5 (a) Kendra Older – Inheritance tax arising on death**

**Lifetime transfer within seven years of death**

**5 October 2012**

| | | £ | |
|---|---|---|---|
| Value transferred | | 253,000 | |
| Annual exemptions | 2012–13 | (3,000) | ½ |
| | 2011–12 | (3,000) | ½ |
| Potentially exempt transfer | | 247,000 | ½ |
| Inheritance tax liability | 185,000 (working) at nil% | 0 | W ½ |
| | 62,000 at 40% | 24,800 | ½ |
| | | 24,800 | |

**Working – Available nil rate band**

| | | £ | £ | |
|---|---|---|---|---|
| Nil rate band | | | 325,000 | ½ |
| Chargeable lifetime transfer 20 June 2006 | | | | |
| Value transferred | | 146,000 | | ½ |
| Annual exemptions | 2006–07 | (3,000) | | ½ |
| | 2005–06 | (3,000) | | ½ |
| Chargeable transfer | | | (140,000) | |
| | | | 185,000 | |

**Death estate**

| | | £ | |
|---|---|---|---|
| Property | | 970,000 | ½ |
| Building society deposits | | 387,000 | ½ |
| Individual savings accounts | | 39,000 | ½ |
| Savings certificates | | 17,000 | ½ |
| Proceeds of life assurance policy | | 225,000 | 1 |
| | | 1,638,000 | |
| Funeral expenses | | (14,000) | ½ |
| Chargeable estate | | 1,624,000 | |
| Inheritance tax liability | 78,000 (325,000 – 247,000) at nil% | 0 | 1½ |
| | 1,546,000 at 40% | 618,400 | ½ |
| | | 618,400 | |
| | | | 10 |

**Tutorial notes:**

(1) *The chargeable lifetime transfer made on 20 June 2006 is not relevant when calculating the inheritance tax on the death estate as it was made more than seven years before the date of Kendra's assumed death on 31 March 2014.*

(2) *Therefore, only the potentially exempt transfer made on 5 October 2012 is taken into account, and this utilises £247,000 of the nil rate band for 2013–14.*

**(b)** (1) As the property is not expected to increase in value in the near future, there is no inheritance tax benefit in making a lifetime gift. Kendra would need to live for three more years for taper relief to be available. 1½

(2) Also, a lifetime gift would result in a capital gains tax liability of £48,720 (174,000 at 28%) for 2013–14, whereas a transfer on death would be an exempt disposal. 1½

3

| | | | Marks |
|---|---|---|---|
| **(c)** | (1) | It can be beneficial to skip a generation so that gifts are made to grandchildren rather than children, particularly if the children already have significant assets. | 1 |
| | (2) | This avoids a further charge to inheritance tax when the children die. Gifts will then only be taxed once before being inherited by the grandchildren, rather than twice. | 1 |
| | | | 2 |
| | | | **15** |