Answers

Section A

1 A

2 D

Output VAT 408 x 20/120 = £68
Input VAT 600 x 20/120 = £100

3 A

6,100 – (23,700 – 10,400 – 11,000) = £3,800

4 B

	£
460,000 (1,380,000 x 4/12) at 23%	105,800
920,000 (1,380,000 x 8/12) at 21%	193,200
	299,000

5 B

6 B

7 C

8 C

(184,000 – 143,000) > 38,600

The base cost is the actual cost of £143,000. There is no rollover relief because the proceeds not reinvested are greater than the chargeable gain.

9 C

10 D

1,771 x 30% ((53,000 – 50,000)/100) = £531

11 C

12 B

13 A

24,000 + 50,000 = £74,000

14 D

Payments on account are not required because the relevant amount for 2013–14 (300 + 320 = £620) does not exceed £1,000.

Marks

15 D

2 marks each **30**

Section B *Marks*

1 (a) (1) A potentially exempt transfer only becomes chargeable to inheritance tax (IHT) if the donor dies within seven years of making the gift. 1

(2) In contrast, a chargeable lifetime transfer is immediately charged to IHT. An additional IHT liability may then arise if the donor dies within seven years of making the gift. 1

2

(b) Zoe – Additional IHT liability arising on the chargeable transfer on death

	£	
Gross chargeable transfer (working 1)	690,000	W1
IHT liability 131,000 (working 2) at nil%	0	W2
559,000 at 40%	223,600	½
Taper relief reduction – 40%	(89,440)	1
	134,160	
IHT already paid (working 1)	(73,000)	W1 ½
Additional liability	61,160	

Working 1 – Chargeable lifetime transfer

	£	
Value transferred	620,000	
Annual exemption 2010–11	(3,000)	½
Net chargeable transfer	617,000	
IHT liability 325,000 at nil%	0	½
292,000 x 20/80	73,000	1
Gross chargeable transfer	690,000	

Tutorial note: *The potentially exempt transfer made on 7 March 2010 utilises the annual exemption for 2009–10.*

Working 2 – Available nil rate band

	£	£	
Nil rate band – Zoe		325,000	½
– Husband (325,000 x 20%)		65,000	1
		390,000	
Potentially exempt transfer			
Value transferred	270,000		½
Marriage exemption	(5,000)		1
Annual exemptions 2009–10	(3,000)		½
2008-09	(3,000)		½
		(259,000)	
		131,000	
			8
			10

Tutorial note: *The gift made on 7 March 2010 is a potentially exempt transfer which becomes chargeable as a result of Zoe dying within seven years of making it.*

2 (a) (1) Where a company makes a capital loss, then no indexation allowance is available because it cannot be used to increase a loss. 1

(2) Where the indexation allowance is greater than a company's unindexed gain, then the gain is simply reduced to nil because the allowance cannot be used to create a loss. 1

2

			Marks

(b) Luna Ltd – Chargeable gains for the year ended 31 March 2015

Pluto plc

	£	Marks
Disposal proceeds	53,400	½
Indexed cost (working)	(16,359)	W
Chargeable gain	37,041	

Working – Share pool

	Number	Indexed cost £	Marks
Purchase June 2008	16,000	36,800	½
Indexation to May 2010 (36,800 x (223·6 – 216·8)/216·8)		1,154	1
		37,954	
Disposal May 2010 (37,954 x 10,000/16,000)	(10,000)	(23,721)	1
	6,000	14,233	
Indexation to November 2014 (14,233 x (257·0 – 223·6)/223·6)		2,126	1
		16,359	
Disposal November 2014	(6,000)	(16,359)	½

Asteroid plc

	£	Marks
Disposal proceeds (cash received)	65,000	1
Indexed cost (working)	(19,500)	W
Chargeable gain	45,500	

Tutorial note: *No chargeable gain arises in respect of the £1 ordinary shares in Asteroid plc because this is a paper for paper disposal.*

Working – Indexed cost

(1) On the takeover, Luna Ltd received cash of £65,000 (10,000 x £6·50) and new ordinary shares valued at £45,000 (10,000 x £4·50). 1

(2) The indexed cost attributable to the cash element is £19,500 (33,000 x 65,000/(65,000 + 45,000)). 1½

8

10

Marks

3 Fergus

(1) **Fergus' income tax liability 2014–15:**

	£	
Director's remuneration	18,000	½
Dividends (40,000 x 100/90)	44,444	1
	62,444	
Personal allowance	(10,000)	½
Taxable income	52,444	

Income tax

£		
8,000 at 20%	1,600	½
23,865 (31,865 – 8,000) at 10%	2,386	½
20,579 (52,444 – 31,865) at 32.5%	6,688	½
52,444		
Income tax liability	10,674	
Tax suffered at source (44,444 at 10%)	(4,444)	1
Income tax payable	6,230	

(2) **National insurance contributions (NIC) 2014–15:**

	£	
Employee class 1 (10,044 (18,000 – 7,956) at 12%)	1,205	1
Employer's class 1 (10,044 (18,000 – 7,956) at 13·8%)	1,386	1
Employment allowance	(1,386)	1
	0	

(3) **Corporation tax liability of the new limited company for the year ended 5 April 2015:**

	£	
Trading profit	100,000	½
Director's remuneration	(18,000)	½
Taxable total profits	82,000	
Corporation tax (82,000 at 20%)	16,400	½

(4) The total tax and NIC cost if Fergus incorporates his business is £23,835 (6,230 + 1,205 + 16,400). ½

(5) Therefore, if Fergus incorporated his business there would be an overall saving of tax and NIC of £10,150 (33,985 – 23,835) compared to continuing on a self-employed basis. ½

10

4 **(a)** **Zim – Value added tax (VAT) for the year ended 31 March 2015**

Marks

	£	£	
Output VAT			
Sales – Standard rated (115,200 x 20/120)		19,200	½
– Zero rated		0	½
Input VAT			
Impairment losses (1,440 (780 + 660) x 20/120)	240		1
Purchases – Standard rate (43,200 x 20/120)	7,200		½
– Zero rated	0		½
Rent (15,600 (1,200 x 13) 20/120)	2,600		1
Telephone (2,600 x 60% (100% – 40%) x 20/120)	260		1
Entertaining – UK customers	0		½
– Overseas customers (240 x 20/120)	40		½
		(10,340)	
VAT payable		8,860	
			6

Tutorial notes:

(1) *Relief for impairment losses is given once six months have expired from the time when payment was due, so relief can be claimed in respect of both impairment losses.*

(2) *Rent is a continuous supply, so the tax point for the April 2015 rental invoice is the date of payment. Therefore, input VAT is recoverable in respect of all 13 rental payments.*

(3) *An apportionment is made where a service such as the use of a telephone is partly for business purposes and partly for private purposes.*

(4) *Input VAT on business entertainment is not recoverable unless it relates to the cost of entertaining overseas customers.*

(b) (1) Zim can join the flat rate scheme from 1 April 2015 because his taxable turnover (excluding VAT) for the next 12 months is not expected to exceed £150,000. 1

(2) He can continue to use the scheme until his total turnover (including VAT, but excluding sales of capital assets) for the previous year exceeds £230,000. 1

2

Tutorial note: *It is also necessary to leave the flat scheme if total turnover is expected to exceed £230,000 during the following 30 days. Although candidates are not expected to be aware of this point, equivalent marks were awarded if this was given instead of the previous year limit.*

(c) (1) Using the flat rate scheme to calculate his VAT liability, Zim would have paid VAT of £15,120 (126,000 x 12%) for the year ended 31 March 2015. 1

(2) It would therefore not have been beneficial to use the flat rate scheme as the additional cost of £6,260 (15,120 – 8,860) for the year would appear to outweigh the advantage of simplified VAT administration. 1

2

10

Marks

5 Retro Ltd

(a) Trading loss for the year ended 31 March 2015

	£	Marks
Loss before taxation	(120,000)	
Depreciation	27,240	½
Gifts to employees	0	½
Gifts to customers	0	½
Political donations	420	½
Qualifying charitable donations	680	½
Impairment loss	0	½
Lease of motor car (4,400 x 15%)	660	1
Health and safety fine	5,100	½
Legal fees – Internet domain name	0	½
Interest payable	0	½
Capital allowances (working)	(50,420)	W
Trading loss	(136,320)	

Tutorial notes:

(1) *Gifts to customers are an allowable deduction if they cost less than £50 per recipient per year, are not of food, drink, tobacco or vouchers for exchangeable goods and carry a conspicuous advertisement for the company making the gift. Gifts to employees are an allowable deduction because the gifts will potentially be assessed on the employees as benefits.*

(2) *Interest on a loan used for trading purposes is deductible on an accruals basis.*

Working – Capital allowances

	£	Main pool £	Allowances £	Marks
WDV brought forward		39,300		½
Additions qualifying for AIA				
Delivery van	28,300			½
AIA – 100%	(28,300)		28,300	½
		0		
Addition – Motor car [1]		14,700		½
		54,000		
WDA – 18%		(9,720)	9,720	½
Addition qualifying for FYA				
Motor car [2]	12,400			½
FYA – 100%	(12,400)		12,400	½
		0		
WDV carried forward		44,280		
Total allowances			50,420	
				9

Tutorial notes:

(1) *Motor car [1] has CO_2 emissions between 96 and 130 grams per kilometre, and therefore qualifies for writing down allowances at the rate of 18%.*

(2) *Motor car [2] has CO_2 emissions up to 95 grams per kilometre, and therefore qualifies for the 100% first year allowance.*

			Marks
(b)	Year ended 31 August 2013 £	Period ended 31 March 2014 £	
Trading profit	56,600	47,900	½
Bank interest	1,300	0	½
	57,900	47,900	
Trading loss (s.37 CTA 2010) (working)	(24,125)	(47,900)	W 1
	33,775	0	
Qualifying charitable donations	(540)		1
Taxable total profits	33,235	0	

Working – Trading loss

For the year ended 31 August 2013, loss relief is restricted to £24,125 (57,900 x 5/12). 1

4

(c) (1) The amount of unrelieved trading loss at 31 March 2015 is £64,295 (136,320 – 47,900 – 24,125). 1

(2) The unrelieved trading loss can be carried forward and will be relieved against the first available trading profits of the same trade. 1

2

15

6 (a) Wai – Taxable income 2014–15

	£	
Employment income		
Salary (10,200 x 12)	122,400	½
Bonus	8,100	1
Mileage allowance (working 1)	2,763	W1
Car benefit (working 2)	1,014	W2
Incidental expenses	0	½
Mobile telephone (400 x 20%)	80	1
Living accommodation – Annual value	4,600	½
– Additional benefit (working 3)	2,964	W3
	141,921	
Personal allowance	0	1
Taxable income	141,921	

Tutorial notes:

(1) The bonus of £4,600 will have been treated as being received during 2013–14 as Wai became entitled to it during that tax year. Similarly, the bonus of £2,900 will be treated as received during 2015–16.

(2) The exemption for mobile telephones does not apply to the second telephone.

(3) No personal allowance is available as Wai's adjusted net income of £141,921 exceeds £120,000.

Marks

Working 1 – Mileage allowance

	Miles	£	
Reimbursement (13,860 at 55p)		7,623	½
Business mileage			
Ordinary commuting	0		½
Travel to clients' premises	8,580		½
Temporary workplace	2,860		½
	11,440		
Tax free amount			
10,000 miles at 45p		(4,500)	½
1,440 miles at 25p		(360)	½
Taxable benefit		2,763	

Tutorial note: *Travel to the temporary workplace qualifies as business mileage because the 24-month limit was not exceeded.*

Working 2 – Car benefit

(1) The relevant percentage for the car benefit is 11% because the motor car has CO_2 emissions between 76 and 94 grams per kilometre. ½

(2) The motor car was available during the period 1 September 2014 to 5 April 2015, so the benefit for 2014–15 is £1,014 (15,800 x 11% x 7/12). 1

Working 3 – Living accommodation additional benefit

(1) The benefit is based on the cost of the property plus subsequent improvements incurred before the start of the tax year.

	£	
Cost	142,000	½
Improvements (14,400 + 9,800)	24,200	1
	166,200	
Limit	(75,000)	1
	91,200	

(2) The additional benefit is therefore £2,964 (91,200 at 3·25%). ½

12

(b) Form P60

(1) Form P60 will show Wai's taxable earnings, income tax deducted, final tax code, national insurance contributions (NIC), and Qaz plc's name and address. 1½

(2) This form should have been provided to Wai by 31 May 2015. ½

Form P11D

(1) Form P11D will detail the expenses and benefits provided to Wai. ½

(2) This form should have been provided to Wai by 6 July 2015. ½

3

15