

Fundamentals Level – Skills Module

Taxation (United Kingdom)

Monday 7 December 2009

Time allowed

Reading and planning: 15 minutes

Writing: 3 hours

ALL FIVE questions are compulsory and MUST be attempted.
Rates of tax and tables are printed on pages 3–5.

Do NOT open this 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.

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

The Association of Chartered Certified Accountants

Paper F6 (UK)

The ACCA logo consists of the letters 'ACCA' in a bold, white, sans-serif font, centered within a solid black square.

ACCA

**This is a blank page.
The question paper begins on page 3.**

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.

TAX RATES AND ALLOWANCES

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

Income tax

		%
Basic rate	£1 – £34,800	20
Higher rate	£34,801 and above	40

A starting rate of 10% applies to savings income where it falls within the first £2,320 of taxable income.

Personal allowance

Personal allowance	Standard	£6,035
Personal allowance	65 – 74	£9,030
Personal allowance	75 and over	£9,180
Income limit for age related allowances		£21,800

Car benefit percentage

The base level of CO₂ emissions is 135 grams per kilometre. A lower rate of 10% applies to petrol cars with CO₂ emissions of 120 grams per kilometre or less.

Car fuel benefit

The base figure for calculating the car fuel benefit is £16,900.

Pension scheme limits

Annual allowance	£235,000
------------------	----------

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

Authorised mileage allowances: cars

Up to 10,000 miles	40p
Over 10,000 miles	25p

Capital allowances

	%
Plant and machinery	
Writing-down allowance – General rate	20
– Special rate pool	10
First-year allowance – Low emission motor cars (CO ₂ emissions of less than 110 grams per kilometre)	100
Annual investment allowance for the first £50,000 of expenditure	100
Industrial buildings	
Writing-down allowance	3

Corporation tax

Financial year	2006	2007	2008
Small companies rate	19%	20%	21%
Full rate	30%	30%	28%
Lower limit	300,000	300,000	300,000
Upper limit	1,500,000	1,500,000	1,500,000
Marginal relief fraction	11/400	1/40	7/400

Marginal relief

$$(M - P) \times I/P \times \text{Marginal relief fraction}$$

Value added tax

Standard rate of VAT	17.5%
Registration limit	£67,000
Deregistration limit	£65,000

Capital gains tax

Rate of tax	18%
Annual exemption	£9,600
Entrepreneurs' relief – Lifetime limit	£1,000,000
– Relief factor	4/9ths

National insurance contributions
(Not contracted out rates)

			%
Class 1	Employee	£1 – £5,435 per year	Nil
		£5,436 – £40,040 per year	11·0
		£40,041 and above per year	1·0
Class 1	Employer	£1 – £5,435 per year	Nil
		£5,436 and above per year	12·8
Class 1A			12·8
Class 2		£2·30 per week	
Class 4		£1 – £5,435 per year	Nil
		£5,436 – £40,040 per year	8·0
		£40,041 and above per year	1·0

Rates of interest

Official rate of interest	6·25%	(assumed)
Rate of interest on underpaid tax	7·5%	(assumed)
Rate of interest on overpaid tax	3·0%	(assumed)

ALL FIVE questions are compulsory and MUST be attempted

- 1 Na Style commenced self-employment as a hairdresser on 1 January 2006. She had tax adjusted trading profits of £25,200 for the six-month period ended 30 June 2006, and £21,600 for the year ended 30 June 2007.

The following information is available for the tax year 2008–09:

Trading profit for the year ended 30 June 2008

- (1) Na's profit and loss account for the year ended 30 June 2008 is as follows:

	Note	£	£
Income			61,300
Expenses			
Depreciation		1,300	
Motor expenses	2	2,200	
Professional fees	3	1,650	
Property expenses	4	12,900	
Purchases	5	4,700	
Other expenses	6	<u>16,550</u>	
			<u>(39,300)</u>
Net profit			<u>22,000</u>

- (2) Na charges all the running expenses for her motor car to the business. During the year ended 30 June 2008 Na drove a total of 8,000 miles, of which 7,000 were for private journeys.
- (3) The figure for professional fees consists of £390 for accountancy and £1,260 for legal fees in connection with the grant of a new five-year lease of parking spaces for customers' motor cars.
- (4) Na lives in a flat that is situated above her hairdressing studio, and one-third of the total property expenses of £12,900 relate to this flat.
- (5) During the year ended 30 June 2008 Na took goods out of the hairdressing business for her personal use without paying for them, and no entry has been made in the accounts to record this. The goods cost £250, and had a selling price of £450.
- (6) The figure for other expenses of £16,550 includes £400 for a fine in respect of health and safety regulations, £80 for a donation to a political party, and £160 for a trade subscription to the Guild of Small Hairdressers.
- (7) Na uses her private telephone to make business telephone calls. The total cost of the private telephone for the year ended 30 June 2008 was £1,200, and 20% of this related to business telephone calls. The cost of the private telephone is not included in the profit and loss account expenses of £39,300.
- (8) Capital allowances for the year ended 30 June 2008 are £810.

Other information

- (1) During the tax year 2008–09 Na received dividends of £1,080, building society interest of £560, interest of £310 from an individual savings account (ISA), interest of £1,100 on the maturity of a savings certificate from the National Savings & Investments Bank, and interest of £370 from government stocks (gilts). These were the actual cash amounts received in each case.
- (2) Na's payments on account of income tax in respect of the tax year 2008–09 totalled £3,200.

Required:

- (a) Calculate the amount of trading profits that will have been assessed on Na Style for the tax years 2005–06, 2006–07 and 2007–08 respectively, clearly identifying the amount of any overlap profits. (5 marks)

- (b) Calculate Na Style's tax adjusted trading profit for the year ended 30 June 2008.

Note: your computation should commence with the net profit figure of £22,000, and should list all of the items referred to in notes (1) to (8) indicating by the use of zero (0) any items that do not require adjustment.

(8 marks)

- (c) (i) Calculate the income tax payable by Na Style for the tax year 2008–09. (6 marks)

- (ii) Calculate Na Style's balancing payment for the tax year 2008–09 and her payments on account for the tax year 2009–10, stating the relevant due dates.

Note: you should ignore national insurance contributions.

(3 marks)

- (d) Advise Na Style of the consequences of not making the balancing payment for the tax year 2008–09 until 31 May 2010.

Note: your answer should include calculations as appropriate.

(3 marks)

(25 marks)

- 2 (a) Crash–Bash Ltd commenced trading on 1 July 2008 as a manufacturer of motor cycle crash helmets in the United Kingdom. The company is incorporated overseas, although its directors are based in the United Kingdom and hold their board meetings in the United Kingdom.

Crash–Bash Ltd prepared its first accounts for the nine-month period ended 31 March 2009. The following information is available:

Trading profit

The tax adjusted trading profit based on the draft accounts for the nine-month period ended 31 March 2009 is £411,700. This figure is **before** making any adjustments required for:

- (1) Capital allowances.
- (2) Advertising expenditure of £12,840 incurred during June 2008. This expenditure has not been deducted in arriving at the tax adjusted trading profit for the period ended 31 March 2009 of £411,700.

Plant and machinery

The accounts for the nine-month period ended 31 March 2009 showed the following additions and disposals of plant and machinery:

		Cost/ (Proceeds) £
2 October 2008	Purchased machinery	62,500
28 November 2008	Purchased a motor car	13,200
12 February 2009	Sold machinery	(3,600)

The motor car purchased on 28 November 2008 for £13,200 is a new low emission motor car (CO₂ emission rate of less than 110 grams per kilometre). The machinery sold on 12 February 2009 for £3,600 originally cost £5,300, and is part of the machinery purchased on 2 October 2008 for £62,500.

Industrial building

Crash–Bash Ltd purchased a new factory from a builder on 1 January 2009 for £320,000 (including £100,000 for the land). The factory was immediately brought into use for industrial purposes.

Overseas dividend

On 31 March 2009 Crash–Bash Ltd received a dividend of £14,250 (net) from a 100% owned subsidiary company, Safety Inc, that is resident overseas. Withholding tax was withheld from the dividend at the rate of 5%. The rate of underlying tax on the profits attributable to the dividend was 25%.

Dividends received

During the period ended 31 March 2009 Crash–Bash Ltd received dividends of £36,000 from Flat-Out plc, an unconnected United Kingdom company. This figure was the actual cash amount received.

Export of crash helmets to Safety Inc

Safety Inc, Crash–Bash Ltd's 100% owned overseas subsidiary company, sells crash helmets that have been manufactured by Crash–Bash Ltd. Crash–Bash Ltd is a large company for the purposes of transfer pricing legislation.

Other information

With the exception of Safety Inc, Crash–Bash Ltd does not have any associated companies.

Required:

- (i) Explain why Crash–Bash Ltd is treated as being resident in the United Kingdom. (2 marks)
- (ii) Calculate Crash–Bash Ltd's corporation tax liability for the nine-month period ended 31 March 2009 after taking account of double taxation relief. (14 marks)
- (iii) Explain the corporation tax implications if Crash–Bash Ltd were to invoice Safety Inc for the exported crash helmets at a price that was less than the market price. (4 marks)

- (b) Note that in answering this part of the question you are not expected to take account of any of the information provided in part (a) above.

Crash–Bash Ltd’s outputs and inputs for the first two months of trading from 1 July 2008 to 31 August 2008 were as follows:

	July £	August £
Outputs		
Sales	13,200	18,800
Inputs		
Goods purchased	94,600	193,100
Services incurred	22,300	32,700

The above figures are stated exclusive of value added tax (VAT).

On 1 September 2008 Crash–Bash Ltd realised that its sales for September 2008 were going to exceed £100,000, and therefore immediately registered for VAT. On that date the company had a stock of goods that had cost £108,600 (exclusive of VAT).

During February 2009 Crash–Bash Ltd discovered that a number of errors had been made when completing its VAT return for the quarter ended 30 November 2008. As a result of these errors the company will have to make an additional payment of VAT to HM Revenue and Customs (HMRC).

Required:

- (i) Explain why Crash–Bash Ltd was required to compulsorily register for VAT from 1 September 2008, and state what action the company then had to take as regards notifying HM Revenue and Customs of the registration. (3 marks)
- (ii) Calculate the amount of input VAT that Crash–Bash Ltd was able to recover in respect of inputs incurred prior to registering for VAT on 1 September 2008. Your answer should include an explanation as to why the input VAT is recoverable. (4 marks)
- (iii) Explain how Crash–Bash Ltd could have voluntarily disclosed the errors relating to the VAT return for the quarter ended 30 November 2008, and state the circumstances in which default interest would have been due. (3 marks)

(30 marks)

- 3 You are a trainee accountant and your manager has asked for your help regarding three taxpayers who have all disposed of assets during the tax year 2008–09.

(a) Amanda Moon

On 30 June 2008 Amanda incorporated a business. She had run the business as a sole trader since 1 July 2003. The market value of the business assets on 30 June 2008 was £300,000. This figure, along with the respective cost of each asset, is made up as follows:

	Market value	Cost
	£	£
Goodwill	90,000	Nil
Freehold shop	165,000	120,000
Net current assets	45,000	45,000
	<u>300,000</u>	

The freehold shop has always been used by Amanda for business purposes. All of the business assets were transferred to a new limited company, Ammoon Ltd, with the consideration consisting of 300,000 £1 ordinary shares valued at £300,000. Amanda took full advantage of the available incorporation relief.

Required:

- (i) Calculate Amanda Moon's chargeable gains, if any, for the tax year 2008–09, and the base cost of her 300,000 £1 ordinary shares in Ammoon Ltd. (4 marks)
- (ii) Explain how your answer to (i) above would have differed if the consideration for the transfer of Amanda Moon's business had instead consisted of 200,000 £1 ordinary shares and £100,000 in cash. (3 marks)

Note: You should ignore entrepreneurs' relief.

(b) Bo Neptune

On 31 July 2008 Bo made a gift of his entire holding of 50,000 £1 ordinary shares (a 100% holding) in Botune Ltd, an unquoted trading company, to his son. The market value of the shares on that date was £210,000. The shares had been purchased by Bo on 22 January 2003 for £94,000. Bo and his son have elected to hold over the gain as a gift of a business asset.

Required:

- (i) Calculate Bo Neptune's chargeable gain, if any, for the tax year 2008–09, and the base cost of his son's 50,000 £1 ordinary shares in Botune Ltd. (3 marks)
- (ii) Explain how your answer to (i) above would have differed if the shares in Botune Ltd had instead been sold to Bo Neptune's son for £160,000. (2 marks)

Note: You should ignore entrepreneurs' relief.

(c) Charles Orion

On 30 September 2008 Charles sold a house for £282,000. The house had been purchased on 1 October 1996 for £110,000.

He occupied the house as his main residence from the date of purchase until 31 March 1998. The house was then unoccupied between 1 April 1998 and 31 December 2006 when Charles went to live with his parents due to his father's illness. From 1 January 2007 until 30 September 2008 Charles again occupied the house as his main residence.

Throughout the period 1 October 1996 to 30 September 2008 Charles did not have any other main residence.

Required:

- (i) Calculate Charles Orion's chargeable gain, if any, for the tax year 2008–09. (5 marks)
- (ii) Explain how your answer to (i) above would have differed if Charles Orion had rented out his house during the period 1 April 1998 to 31 December 2006. (3 marks)

(20 marks)

- 4 On 1 May 2008 Simon House purchased a derelict freehold house for £127,000. Legal fees of £1,800 were paid in respect of the purchase.

Simon then renovated the house at a cost of £50,600, with the renovation being completed on 10 August 2008. He immediately put the house up for sale, and it was sold on 31 August 2008 for £260,000. Legal fees of £2,600 were paid in respect of the sale.

Simon financed the transaction by a bank loan of £150,000 that was taken out on 1 May 2008 at an annual interest rate of 6%. The bank loan was repaid on 31 August 2008.

Simon had no other income or capital gains for the tax year 2008–09 except as indicated above.

Simon has been advised that whether or not he is treated as carrying on a trade will be determined according to the six following 'badges of trade':

- (1) Subject matter of the transaction.
- (2) Length of ownership.
- (3) Frequency of similar transactions.
- (4) Work done on the property.
- (5) Circumstances responsible for the realisation.
- (6) Motive.

Required:

- (a) **Briefly explain the meaning of each of the six 'badges of trade' listed in the question.**

Note: You are not expected to quote from decided cases. (3 marks)

- (b) **Calculate Simon House's income tax liability and his Class 2 and Class 4 national insurance contributions for the tax year 2008–09, if he is treated as carrying on a trade in respect of the disposal of the freehold house.** (8 marks)

- (c) **Calculate Simon House's capital gains tax liability for the tax year 2008–09, if he is not treated as carrying on a trade in respect of the disposal of the freehold house.** (4 marks)

(15 marks)

- 5 Volatile Ltd commenced trading on 1 July 2004. The company's results for its first five periods of trading are as follows:

	Period ended 31 December 2004 £	Year ended 31 December 2005 £	Year ended 31 December 2006 £	Period ended 30 September 2007 £	Year ended 30 September 2008 £
Trading profit/(loss)	44,000	(73,800)	95,200	78,700	(146,800)
Property business profit	9,400	6,600	6,500	–	–
Chargeable gains	5,100	–	–	9,700	–
Gift aid donations	(800)	(1,000)	(1,200)	–	–

Required:

- (a) State the factors that will influence a company's choice of loss relief claims.

Note: You are not expected to consider group relief.

(3 marks)

- (b) Assuming that Volatile Ltd claims relief for its trading losses as early as possible, calculate the company's profits chargeable to corporation tax for the six-month period ended 31 December 2004, each of the years ended 31 December 2005 and 2006, and the nine-month period ended 30 September 2007. Your answer should also clearly identify the amount of any unrelieved trading losses as at 30 September 2008.

(7 marks)

(10 marks)

End of Question Paper