Answers

1 (a) Peter Chic – Income tax computation 2007–08

	£	£
Employment income		
Salary	45,600	
Bonuses (4,300 + 3,600)	7,900	
		53,500
Car benefit	7,175	
Fuel benefit	5,040	
Living accommodation – Annual value	9,100	
– Additional benefit	6,125	
Mobile telephone (250 x 20%)	50	
Health club membership	510	
Overseas allowance	–	
		28,000
		81,500
Property business profit		3,660
Building society interest (1,760 x 100/80)		2,200
Dividends (720 x 100/90)		800
Premium bond prize		–
		88,160
Personal allowance		(5,225)
Taxable income		82,935
Income tax		
2,230 at 10%		223
35,370 at 22%		7,781
44,535 (82,935 – 800 – 2,230 – 35,370) at 40%		17,814
800 at 32·5%		260
82,935		
Income tax liability		26,078
Tax suffered at source		
PAYE	15,558	
Building society interest (2,200 at 20%)	440	
Dividends (800 at 10%)	80	
		(16,078)
Income tax payable		10,000

(1) The relevant percentage for the car benefit is 36% (15% + 18% (230 – 140 = 90/5) + 3% charge for a diesel motor car), but this is restricted to the maximum of 35%.

(2) The motor car was available throughout 2007–08 so the benefit is £7,175 (22,500 – 2,000 = 20,500 x 35%).

(3) The fuel benefit is £5,040 (14,400 x 35%).

(4) The living accommodation cost is in excess of £75,000 so there will be an additional benefit. Since the property was not purchased more than six years before first being provided to Peter, the benefit is based on the cost of the property plus subsequent improvements.

(5) The additional benefit is therefore £6,125 (160,000 + 13,000 – 75,000 = 98,000 at 6·25%).

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

(7) Payments for private incidental expenses are exempt up to £10 per night when spent outside the UK.

(8) The property business profit is calculated as follows:

	£	£
Rent receivable – Property 1 (500 x 5)		2,500
Property 2 (820 x 8)		6,560
		9,060
Irrecoverable rent (500 x 2)	1,000	
Repairs	600	
Advertising	875	
Loan interest	1,800	
Insurance	975	
Wear and tear allowance (1,500 x 10%)	150	
		(5,400)
Property business profit		3,660

(9) The wear and tear allowance can only be claimed in respect of the first property since the second property is not let out furnished. The allowance is based on the rents actually received of £1,500 (2,500 – 1,000).

(10) The 2007–-08 insurance cost is £975 ((660 x 3/12) + (1,080 x 9/12)).

(11) Premium bond prizes are exempt from income tax.

(12) Peter's basic rate tax band is extended by £3,000 (2,340 x 100/78) to £35,370 (32,370 + 3,000) as a result of making the gift aid donation.

(b) (1) Employee Class 1 NIC for 2007–08 is £3,444 ((34,840 – 5,225 = 29,615 at 11%) + (53,500 – 34,840 = 18,660 at 1%)).

(2) Employer's Class 1 NIC for 2007–08 is £6,179 (53,500 – 5,225 = 48,275 at 12·8%).

(3) Employer's Class 1A NIC for 2007–08 is £3,584 (28,000 at 12·8%).

2 (a) (i) Jogger Ltd – Trading loss for the year ended 31 March 2008

	£	£
Operating loss		(56,400)
Depreciation	12,340	
Capital allowances – P & M (working 1)		(3,300)
– IBA (working 2)		(10,000)
	12,340	(69,700)
		12,340
		(57,360)

Working 1 – Plant and machinery

	Pool £	Motor car £	Allowances £
WDV brought forward	21,600	8,800	
Addition	11,800		
	33,400		
Proceeds	(8,600)	(11,700)	
Balancing charge		(2,900)	(2,900)
	24,800		
WDA – 25%	(6,200)		6,200
WDV carried forward	18,600		
Total allowances			3,300

Working 2 – Industrial buildings allowance

(1) Jogger Ltd can only claim IBA based on the seller's residue of qualifying expenditure of £220,000 (250,000 – (10,000 x 3)).

(2) The allowance is based on the remaining 264 months (300 – 36) of the 25-year life of the factory. This runs from the date that the building was first brought into industrial use.

(4) The WDA is therefore £10,000 (220,000 x 12/264).

(ii) Jogger Ltd – Corporation tax computation for the year ended 31 March 2008

	£	£
Property business profit		126,000
Bank interest		8,460
Loan interest (16,400 + 8,200)		24,600
Chargeable gain		98,300
		257,360
Loss relief (s.393A)		(57,360)
Profits chargeable to corporation tax		200,000
Franked investment income (45,000 x 100/90)		50,000
Profit		250,000
Corporation tax (200,000 at 30%)	60,000	
Marginal relief		
1/40 (500,000 – 250,000) x 200,000/250,000	(5,000)	
		55,000

(1) The property business profit is calculated as follows:

	£
Premium received	100,000
Less: 100,000 x 2% x (10 – 1)	(18,000)
	82,000
Rent receivable	44,000
	126,000

(2) Jogger Ltd has two associated companies, so the lower and upper limits are reduced to £100,000 (300,000/3) and £500,000 (1,500,000/3) respectively.

(iii) (1) Jogger Ltd's self-assessment tax return for the year ended 31 March 2008 must be submitted by 31 March 2009.

(2) If the company submits its self-assessment tax return eight months late, then there will be an automatic fixed penalty of £200, since the return is more than three months late.

(3) There will also be an additional corporation tax related penalty of £5,500 (55,000 x 10%) being 10% of the tax unpaid, since the self-assessment tax return is more than six months late.

(b) (i) (1) The late submission of the VAT return for the quarter ended 30 September 2006 will have resulted in HM Revenue and Customs (HMRC) issuing a surcharge liability notice specifying a surcharge period running to 30 September 2007.

(2) The late payment of VAT for the quarter ended 31 March 2007 will have resulted in a surcharge of £778 (38,900 x 2%).

(3) The surcharge period will also have been extended to 31 March 2008.

(4) Although Jogger Ltd then submitted three consecutive VAT returns during this surcharge period on time, this was insufficient to revert to a clean default surcharge record.

(5) The late payment of VAT for the quarter ended 31 March 2008 will therefore have resulted in a surcharge of £4,455 (89,100 x 5%).

(6) The surcharge period will also have been extended to 31 March 2009.

(ii) (1) The reduced administration from only having to submit one VAT return each year should mean that default surcharges are avoided in respect of the late submission of VAT returns.

(2) In addition, making payments on account based on the previous year's VAT liability will improve both budgeting and possibly cash flow where a business is expanding.

(3) Jogger Ltd can apply to use the annual accounting scheme if its expected taxable turnover for the next 12 months does not exceed £1,350,000 exclusive of VAT.

(4) In addition the company must be up to date with its VAT returns.

3 (a) Office building

	£	£
Disposal proceeds		260,000
Incidental costs of disposal		(3,840)
		256,160
Cost	81,000	
Incidental costs of acquisition	3,200	
	84,200	
Enhancement expenditure	43,000	
		(127,200)
		128,960
Indexation – Cost 84,200 x 0·617	51,951	
– Enhancement 43,000 x 0·163	7,009	
		(58,960)
Chargeable gain		70,000

(1) The indexation factor for the cost is 0·617 (205·0 – 126·8)/126·8, and for the enhancement expenditure it is 0·163 (205·0 – 176·2)/176·2.

Albatross plc

	£
Disposal proceeds	42,500
Cost	(17,500)
Chargeable gain	25,000

(1) Hawk Ltd has purchased 8,000 (6,000 + 2,000) shares in Albatross plc for a total cost of £28,000 (18,600 + 9,400).

(2) The cost of the 5,000 shares sold is therefore £17,500 (28,000 x 5,000/8,000).

Cuckoo plc

	£
Disposal proceeds	32,000
Cost	(15,000)
Chargeable gain	17,000

(1) On the reorganisation Hawk Ltd received new ordinary shares valued at £67,500 (3 x 5,000 x £4·50) and preference shares valued at £22,500 (2 x 5,000 x £2·25).

(2) The cost attributable to the 10,000 preference shares in Cuckoo plc is £15,000 (60,000 x 22,500/(67,500 + 22,500)).

Land

	£
Disposal proceeds	120,000
Cost	(132,000)
Capital loss	(12,000)

(1) The cost relating to the two acres of land sold is £132,000 (203,500 x 120,000/185,000 (120,000 + 65,000)).

Corporation tax liability

(1) For the year ended 31 March 2008 Hawk Ltd has net chargeable gains of £100,000 (70,000 + 25,000 + 17,000 – 12,000).

(2) The company's corporation tax liability for the year ended 31 March 2008 is therefore £45,000 (125,000 + 100,000 = 225,000 at 20%).

(b) (1) The only disposal that qualifies for rollover relief is the sale of the freehold office building.

(2) The office building was sold for £260,000, and this is therefore the amount that Hawk Ltd will have to reinvest in order to claim the maximum possible amount of rollover relief. In practice, HMRC will accept reinvestment of the net proceeds of £256,160.

(3) The reinvestment will have to take place between 1 May 2006 and 30 April 2010, being one year before and three years after the date of disposal.

(4) Corporation tax of £14,000 (70,000 at 20%) will be saved if the maximum possible amount of rollover relief is claimed.

4 (a)

		Ae	Bee	Cae
		£	£	£
2005–06	1 July 2005 to 5 April 2006 54,000 x 9/12 x 1/2	20,250	20,250	
2006–07	Year ended 30 June 2006 54,000 x 1/2	27,000	27,000	
2007–08	Year ended 30 June 2007 66,000 x 1/2	33,000	33,000	
	1 July 2007 to 5 April 2008 87,000 x 9/12 x 1/3			21,750

(1) The commencement rules apply to Ae and Bee for 2005–06.

(2) The commencement rules apply to Cae for 2007–08 since he joined as a partner on 1 July 2007.

(b) (i)

		£
2005–06	Year ended 5 April 2006	32,880
2006–07	1 August 2005 to 31 July 2006 21,920 (32,880 x 8/12) + 16,240	38,160
2007–08	Year ended 31 July 2007	54,120

(1) The assessment for 2006–07 is for the 12 months to the new accounting date of 31 July.

(ii) (1) In 2006–07 there are overlap profits of £21,920 in respect of the eight-month period 1 August 2005 to 5 April 2006.

(c)

		£
2006–07	Year ended 30 June 2006	61,200
	Capital allowances (working)	(2,100)
		59,100
2007–08	Period ended 30 September 2007	72,000
	Balancing allowance (working)	(4,400)
		67,600
	Relief for overlap profits	(19,800)
		47,800

Working – Capital allowances

	Pool	Allowances
	£	£
Year ended 30 June 2006		
WDV brought forward	8,400	
WDA – 25%	(2,100)	2,100
WDV carried forward	6,300	
Period ended 30 September 2007		
Addition	2,400	
	8,700	
Disposal	(4,300)	
Balancing allowance	(4,400)	4,400

5 Ann Peach – Income tax computation 2007–08

	£
Trading profit	48,000
Personal allowance	(5,225)
Taxable income	42,775
Income tax	
2,230 at 10%	223
40,545 at 22%	8,920
42,775	
Income tax liability	9,143

(1) Only £48,000 of Ann's pension contributions of £52,000 will have qualified for tax relief, since relief is only available up to the amount of earnings.

(2) The pension contributions result in Ann's basic rate tax band being extended to £80,370 (32,370 + 48,000).

Basil Plum – Income tax computation 2007–08

	£
Employment income	320,000
Personal allowance	(5,225)
Taxable income	314,775
Income tax	
2,230 at 10%	223
292,370 at 22%	64,321
20,175 at 40%	8,070
314,775	
	72,614
Excess contribution charge	
35,000 (260,000 – 225,000) at 40%	14,000
Income tax liability	86,614

(1) All of Basil's pension contributions of £260,000 will have qualified for tax relief, although the excess contribution charge effectively restricts relief to £225,000.

(2) The pension contributions result in Basil's basic rate tax band being extended to £292,370 (32,370 + 260,000).

Chloe Pear – Income tax computation 2007–08

	£
Property business profit	23,900
Personal allowance	(5,225)
Taxable income	18,675
Income tax	
2,230 at 10%	223
16,445 at 22%	3,618
18,675	
Income tax liability	3,841

(1) Chloe has no relevant earnings for 2007–08, so only £3,600 of her pension contributions of £8,200 will have qualified for tax relief.

				Marks	
1	**(a)**	Salary		$^1/_2$	
		Bonus payments		1	
		Car benefit	– Relevant percentage	1	
			– Capital contribution	$^1/_2$	
			– Calculation	$^1/_2$	
		Fuel benefit		1	
		Living accommodation	– Annual value	1	
			– Additional benefit	2	
		Mobile telephone		1	
		Health club membership		$^1/_2$	
		Overseas allowance		$^1/_2$	
		Property business profit	– Rent receivable	1	
			– Impairment losses	$^1/_2$	
			– Repairs	$^1/_2$	
			– Advertising	$^1/_2$	
			– Loan interest	1	
			– Insurance	1	
			– Wear and tear allowance	1	
		Building society interest		$^1/_2$	
		Dividends		$^1/_2$	
		Premium bond prize		$^1/_2$	
		Personal allowance		$^1/_2$	
		Extension of basic rate band		1	
		Income tax		$1^1/_2$	
		Tax suffered at source		$1^1/_2$	
					21
	(b)	Employee Class 1 NIC		$1^1/_2$	
		Employer Class 1 NIC		$1^1/_2$	
		Employer Class 1A NIC		1	
					4
					25

				Marks	
2	**(a)**	**(i)**	Operating loss	$^1/_2$	
			Depreciation	$^1/_2$	
			P & M – Pool	2	
			– Expensive motor car	$1^1/_2$	
			IBA – Residue of qualifying expenditure	1	
			– Balance of 25-year life	1	
			– WDA	$^1/_2$	
					7
		(ii)	Property business profit	2	
			Bank interest	$^1/_2$	
			Loan interest	1	
			Chargeable gain	$^1/_2$	
			Loss relief	1	
			Franked investment income	1	
			Corporation tax	2	
					8
		(iii)	Due date	1	
			Fixed penalty	$1^1/_2$	
			Corporation tax related penalty	$1^1/_2$	
					4
	(b)	**(i)**	Quarter ended 30 September 2006	2	
			Quarter ended 31 March 2007	2	
			Quarter ended 31 March 2008	2	
					6
		(ii)	One VAT return	$1^1/_2$	
			Payments on account	$1^1/_2$	
			Limit	1	
			VAT returns	1	
					5
					30

					Marks
3	(a)		**Office building**		
			Disposal proceeds	½	
			Costs of disposal	½	
			Cost	½	
			Costs of acquisition	½	
			Enhancement expenditure	½	
			Indexation – Cost	1	
			– Enhancement	1	
			Albatross plc		
			Proceeds	½	
			Cost	2	
			Cuckoo plc		
			Proceeds	½	
			Value of shares – Ordinary shares	1	
			– Preference shares	1	
			Cost	1½	
			Land		
			Proceeds	½	
			Cost	2	
			Corporation tax liability		
			Net chargeable gains	1	
			Calculation	1½	
					16
	(b)		Qualifying disposal	1	
			Amount of reinvestment	1	
			Period of reinvestment	1	
			Corporation tax saving	1	
					4
					20
4	(a)		2005–06	1½	
			2006–07	1	
			2007–08 – Ae and Bee	1	
			– Cae	1½	
					5
	(b)	(i)	2005–06	1	
			2006–07	2	
			2007–08	1	
					4
		(ii)	2006–07		1
	(c)		2006–07 – Assessment	1	
			– Capital allowances	½	
			2007–08 – Assessment	1	
			– Capital allowances	1½	
			– Relief for overlap profits	1	
					5
					15

5		Marks
	Ann Peach	
	Taxable income	$\frac{1}{2}$
	Extension of basic rate band	1
	Income tax	$\frac{1}{2}$
	Amount qualifying for tax relief	1
	Basil Plum	
	Taxable income	$\frac{1}{2}$
	Extension of basic rate band	1
	Income tax	1
	Excess contribution charge	$1\frac{1}{2}$
	Amount qualifying for tax relief	1
	Chloe Pear	
	Taxable income	$\frac{1}{2}$
	Income tax	$\frac{1}{2}$
	Amount qualifying for tax relief	1
		10