Fundamentals Level – Skills Module

Taxation (United Kingdom)

Monday 1 December 2008

Paper F6 (UK)

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 2–4.

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.

ACCA

The Association of Chartered Certified Accountants

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

		%
Starting rate	£1 – £2,230	10
Basic rate	£2,231 – £34,600	22
Higher rate	£34,601 and above	40

Personal allowance

Personal allowance	Standard	£5,225
Personal allowance	65 – 74	£7,550
Personal allowance	75 and over	£7,690
Income limit for age related allowances		£20,900

Car benefit percentage

The base level of CO_2 emissions is 140 grams per kilometre.

Car fuel benefit

The base figure for calculating the car fuel benefit is £14,400.

Pension scheme limits

Annual allowance	£225,000

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			25
First-year allowance	–	Plant and machinery	40
	–	Low emission motor cars (CO_2 emissions of less than 120 grams per kilometre)	100

For small businesses only: the rate of plant and machinery first-year allowance is increased to 50% for the period from 1 April 2006 to 31 March 2008 (6 April 2006 to 5 April 2008 for unincorporated businesses).

Long-life assets	
Writing-down allowance	6
Industrial buildings	
Writing-down allowance	4

Corporation tax

Financial year	**2005**	**2006**	**2007**
Small companies rate	19%	19%	20%
Full rate	30%	30%	30%
Lower limit	300,000	300,000	300,000
Upper limit	1,500,000	1,500,000	1,500,000
Marginal relief fraction	11/400	11/400	1/40

Marginal relief

(M – P) x I/P x Marginal relief fraction

Value added tax

	£
Registration limit	64,000
Deregistration limit	62,000

Capital gains tax: annual exemption

Individuals	£9,200

Capital gains tax: taper relief

Complete years after 5 April 1998 for which asset held	Percentage of gains chargeable after relief	
	Business assets	Non-business assets
1	50%	100%
2	25%	100%
3	25%	95%
4	25%	90%
5	25%	85%
6	25%	80%
7	25%	75%
8	25%	70%
9	25%	65%
10	25%	60%

National insurance contributions
(Not contracted out rates)

			%
Class 1	Employee	£1 – £5,225 per year	Nil
		£5,226 – £34,840 per year	11·0
		£34,841 and above per year	1·0
Class 1	Employer	£1 – £5,225 per year	Nil
		£5,226 and above per year	12·8
Class 1A			12·8
Class 2		£2·20 per week	
Class 4		£1 – £5,225 per year	Nil
		£5,226 – £34,840 per year	8·0
		£34,841 and above per year	1·0

Rates of interest

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

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Question 1 begins on page 6.

ALL FIVE questions are compulsory and MUST be attempted

1 Peter Chic is employed by Haute-Couture Ltd as a fashion designer. The following information is available for the tax year 2007–08:

Employment

(1) During the tax year 2007-08 Peter was paid a gross annual salary of £45,600 by Haute-Couture Ltd. Income tax of £15,558 was deducted from this figure under PAYE.

(2) In addition to his salary, Peter received two bonus payments from Haute-Couture Ltd during the tax year 2007–08. The first bonus of £4,300 was paid on 30 April 2007 and was in respect of the year ended 31 December 2006. Peter became entitled to this first bonus on 10 April 2007. The second bonus of £3,600 was paid on 31 March 2008 and was in respect of the year ended 31 December 2007. Peter became entitled to this second bonus on 25 March 2008.

(3) Throughout the tax year 2007–08 Haute-Couture Ltd provided Peter with a diesel powered motor car which has a list price of £22,500. The motor car cost Haute-Couture Ltd £21,200, and it has an official CO_2 emission rate of 232 grams per kilometre. Peter made a capital contribution of £2,000 towards the cost of the motor car when it was first provided to him. Haute-Couture Ltd also provided Peter with fuel for private journeys.

(4) Haute-Couture Ltd has provided Peter with living accommodation since 1 January 2005. The company had purchased the property in 2004 for £160,000, and it was valued at £185,000 on 1 January 2005. Improvements costing £13,000 were made to the property during June 2006. The annual value of the property is £9,100.

(5) Throughout the tax year 2007–08 Haute-Couture Ltd provided Peter with two mobile telephones. The telephones had each cost £250 when purchased by the company in January 2007.

(6) On 5 January 2008 Haute-Couture Ltd paid a health club membership fee of £510 for the benefit of Peter.

(7) During February 2008 Peter spent five nights overseas on company business. Haute-Couture Ltd paid Peter a daily allowance of £10 to cover the cost of personal expenses such as telephone calls to his family.

Property income

(1) Peter owns two properties, which are let out. Both properties are freehold houses, with the first property being let out furnished and the second property being let out unfurnished.

(2) The first property was let from 6 April 2007 to 31 August 2007 at a monthly rent of £500, payable in advance. On 31 August 2007 the tenant left owing two months' rent which Peter was unable to recover. The property was not re-let before 5 April 2008. During March 2008 Peter spent £600 repairing the roof of this property.

(3) The second property was purchased on 1 July 2007, and was then let from 1 August 2007 to 5 April 2008 at a monthly rent of £820, payable in advance. During July 2007 Peter spent £875 on advertising for tenants. For the period 1 July 2007 to 5 April 2008 he paid loan interest of £1,800 in respect of a loan that was taken out to purchase this property.

(4) Peter insured both of his rental properties at a total cost of £660 for the year ended 30 June 2007, and £1,080 for the year ended 30 June 2008. The insurance is payable annually in advance.

(5) Where possible, Peter claims the wear and tear allowance.

Other information

(1) During the tax year 2007–08 Peter received building society interest of £1,760 and dividends of £720. These were the actual cash amounts received.

(2) On 4 August 2007 Peter received a premium bond prize of £100.

(3) During the tax year 2007–08 Peter made gift aid donations totalling £2,340 (net) to national charities.

Required:

(a) Calculate the income tax payable by Peter Chic for the tax year 2007–08. (21 marks)

(b) Calculate the total amount of national insurance contributions that will have been paid by Peter Chic and Haute-Couture Ltd in respect of Peter's earnings and benefits for the tax year 2007–08. (4 marks)

(25 marks)

2 **(a)** Jogger Ltd is a manufacturer of running shoes. The company's summarised profit and loss account for the year ended 31 March 2008 is as follows:

	Note	£	£
Operating loss	1		(56,400)
Income from investments			
Bank interest	4	8,460	
Loan interest	5	24,600	
Income from property	6	144,000	
Dividends	7	45,000	
			222,060
Profit from sale of fixed assets			
Disposal of shares	8		102,340
Profit before taxation			268,000

Note 1 – Operating profit

Depreciation of £12,340 has been deducted in arriving at the operating loss of £56,400.

Note 2 – Plant and machinery

On 1 April 2007 the tax written down values of plant and machinery were as follows:

	£
General pool	21,600
Expensive motor car	8,800

The following transactions took place during the year ended 31 March 2008:

		Cost/(proceeds) £
20 July 2007	Sold the expensive motor car	(11,700)
31 July 2007	Purchased motor car	11,800
14 March 2008	Sold a lorry	(8,600)

The expensive motor car sold on 20 July 2007 for £11,700 originally cost £18,400. The lorry sold on 14 March 2008 for £8,600 originally cost £16,600.

Jogger Ltd is a small company as defined by the Companies Acts.

Note 3 – Industrial building

On 1 April 2007 Jogger Ltd purchased a second-hand factory for £320,000 (excluding the cost of land). The factory was originally constructed at a cost of £250,000 (excluding the cost of land). The factory was first brought into use on 1 April 2004, and has always been used for industrial purposes. The seller of the factory has claimed writing-down allowances of £10,000 per year for three years.

Note 4 – Bank interest received

The bank interest was received on 31 March 2008. The bank deposits are held for non-trading purposes.

Note 5 – Loan interest receivable

The loan was made for non-trading purposes on 1 July 2007. Loan interest of £16,400 was received on 31 December 2007, and interest of £8,200 was accrued at 31 March 2008.

Note 6 – Income from property

Jogger Ltd lets out an unfurnished freehold office building that is surplus to requirements. The office building was let throughout the year ended 31 March 2008. On 1 April 2007 Jogger Ltd received a premium of £100,000 for the grant of a ten-year lease, and the annual rent of £44,000 which is payable in advance.

Note 7 – Dividends received

During the year ended 31 March 2008 Jogger Ltd received dividends of £45,000 from Sprinter plc, an unconnected UK company. This figure was the actual cash amount received.

Note 8 – Profit on disposal of shares

The profit on disposal of shares is in respect of a shareholding that was sold on 5 December 2007. The disposal resulted in a chargeable gain of £98,300. This figure is after taking account of indexation.

Note 9 – Other information

Jogger Ltd has two associated companies.

Required:

(i) Calculate Jogger Ltd's tax adjusted trading loss for the year ended 31 March 2008.

Note: you should assume that the company claims the maximum available capital allowances. (7 marks)

(ii) Assuming that Jogger Ltd claims relief for its trading loss against total profits (under s.393A ICTA 1988), calculate the company's corporation tax liability for the year ended 31 March 2008. (8 marks)

(iii) State the date by which Jogger Ltd's self-assessment corporation tax return for the year ended 31 March 2008 should be submitted, and advise the company of the penalties that will be due if the return is submitted eight months late.

Note: you should assume that the company pays its corporation tax liability at the same time that the self-assessment tax return is submitted. (4 marks)

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

Jogger Ltd has been registered for value added tax (VAT) since 1 April 2001. From that date until 30 June 2006 the company's VAT returns were all submitted on time. Since 1 July 2006 the company's VAT returns have been submitted as follows:

Quarter ended	VAT paid £	Submitted
30 September 2006	42,700	One month late
31 December 2006	41,200	On time
31 March 2007	38,900	One month late
30 June 2007	28,300	On time
30 September 2007	49,100	On time
31 December 2007	63,800	On time
31 March 2008	89,100	Two months late

Jogger Ltd always pays any VAT that is due at the same time as the related return is submitted.

Required:

(i) State, giving appropriate reasons, the default surcharge consequences arising from Jogger Ltd's submission of its VAT returns for the quarter ended 30 September 2006 to the quarter ended 31 March 2008 inclusive, at the times stated. (6 marks)

(ii) Advise Jogger Ltd why it might be beneficial to use the VAT annual accounting scheme, and state the conditions that it will have to satisfy before being permitted to do so. (5 marks)

(30 marks)

3 Hawk Ltd sold the following assets during the year ended 31 March 2008:

(1) On 30 April 2007 a freehold office building was sold for £260,000. The office building had been purchased on 2 July 1990 for £81,000, and had been extended at a cost of £43,000 during May 2002. Hawk Ltd incurred legal fees of £3,200 in connection with the purchase of the office building, and legal fees of £3,840 in connection with the disposal. The office building has always been used by Hawk Ltd for business purposes. The relevant retail prices indexes (RPIs) are as follows:

July 1990	126·8
May 2002	176·2
April 2007	205·0

(2) On 29 August 2007 5,000 £1 ordinary shares in Albatross plc were sold for £42,500. Hawk Ltd had purchased 6,000 shares in Albatross plc on 1 August 2007 for £18,600, and purchased a further 2,000 shares on 17 August 2007 for £9,400.

(3) On 27 October 2007 10,000 £1 preference shares in Cuckoo plc were sold for £32,000. Hawk Ltd had originally purchased 5,000 £1 ordinary shares in Cuckoo plc on 2 October 2007 for £60,000. On 18 October 2007 Cuckoo plc had a reorganisation whereby each £1 ordinary share was exchanged for three new £1 ordinary shares and two £1 preference shares. Immediately after the reorganisation each new £1 ordinary share was quoted at £4·50 and each £1 preference share was quoted at £2·25.

(4) On 28 March 2008 two acres of land were sold for £120,000. Hawk Ltd had originally purchased three acres of land on 1 March 2008 for £203,500. The market value of the unsold acre of land as at 28 March 2008 was £65,000. The land has never been used by Hawk Ltd for business purposes.

Hawk Ltd's only other income for the year ended 31 March 2008 was a trading profit of £125,000.

Hawk Ltd does not have any associated companies.

Required:

(a) Calculate Hawk Ltd's corporation tax liability for the year ended 31 March 2008. (16 marks)

(b) Advise Hawk Ltd of:

(i) The minimum amount that will have to be reinvested in qualifying replacement business assets in order for the company to claim the maximum possible amount of rollover relief in respect of its chargeable gains for the year ended 31 March 2008. (2 marks)

(ii) The period during which the reinvestment must take place. (1 mark)

(iii) The amount of corporation tax that will be deferred if the maximum possible amount of rollover relief is claimed for the year ended 31 March 2008. (1 mark)

(20 marks)

4 **(a)** Ae and Bee commenced in partnership on 1 July 2005 preparing accounts to 30 June. Cae joined as a partner on 1 July 2007. Profits have always been shared equally. The partnership's trading profits since the commencement of trading have been as follows:

	£
Year ended 30 June 2006	54,000
Year ended 30 June 2007	66,000
Year ended 30 June 2008	87,000

Required:

Calculate the trading income assessments of Ae, Bee and Cae for each of the tax years 2005–06, 2006–07 and 2007–08. (5 marks)

(b) Dee commenced in self-employment on 6 April 2004. She initially prepared accounts to 5 April, but changed her accounting date to 31 July by preparing accounts for the four-month period to 31 July 2006. Dee's trading profits since she commenced trading have been as follows:

	£
Year ended 5 April 2005	35,160
Year ended 5 April 2006	32,880
Four-month period ended 31 July 2006	16,240
Year ended 31 July 2007	54,120

Required:

(i) **Calculate the amount of trading profits that will have been assessed on Dee for each of the tax years 2005–06, 2006–07 and 2007–08;** (4 marks)

(ii) **State the amount of Dee's unrelieved overlap profits as at 5 April 2008.** (1 mark)

(c) Eue ceased trading on 30 September 2007, having been self-employed since 1 July 1999.

(1) Eue's trading profits for the final two periods of trading were as follows:

	£
Year ended 30 June 2006	61,200
Fifteen-month period ended 30 September 2007	72,000

Both these figures are **before** taking account of capital allowances.

(2) The tax written-down value of the capital allowances general pool at 1 July 2005 was £8,400. On 15 November 2006 Eue purchased office furniture for £2,400. All of the items included in the general pool were sold for £4,300 on 30 September 2007.

(3) Until the final period of trading Eue had always prepared accounts to 30 June. Her overlap profits for the period 1 July 1999 to 5 April 2000 were £19,800.

Required:

Calculate the amount of trading profits that will have been assessed on Eue for each of the tax years 2006–07 and 2007–08. (5 marks)

(15 marks)

5 You are a trainee accountant and your manager has asked for your help regarding three taxpayers who have all made personal pension contributions during the tax year 2007–08.

Ann Peach

Ann, aged 30, is self-employed as an estate agent. Her trading profit for the year ended 5 April 2008 was £48,000. Ann made contributions of £52,000 (gross) into a personal pension scheme during the tax year 2007–08.

Basil Plum

Basil, aged 42, is employed by the Banana Bank plc as a fund manager. During the tax year 2007–08 Basil was paid a gross salary of £320,000. Basil made contributions of £260,000 (gross) into a personal pension scheme during the tax year 2007–08. He is not a member of Banana Bank plc's occupational pension scheme.

Chloe Pear

Chloe, aged 54, lets out unfurnished property. For the tax year 2007–08 her property business profit was £23,900. Chloe made contributions of £8,200 (gross) into a personal pension scheme during the tax year 2007–08.

Neither Ann nor Basil nor Chloe has any other income.

Required:

For each of the three taxpayers Ann Peach, Basil Plum and Chloe Pear, state, giving reasons the amount of personal pension contributions that will have qualified for tax relief for the tax year 2007–08, and calculate their income tax liabilities for that year.

Note: marks are allocated: Ann Peach 3 marks; Basil Plum 5 marks; and Chloe Pear 2 marks.

(10 marks)

End of Question Paper