Answers

1 (a) (i) Domingo Gomez – Income tax computation 2008–09

	£
Pensions (4,500 + 2,300)	6,800
Building society interest (14,400 x 100/80)	18,000
Interest from savings certificate (exempt)	–
	24,800
Personal allowance	(7,530)
Taxable income	17,270
Income tax	
£	
2,320 at 10%	232
14,950 at 20%	2,990
17,270	
Income tax liability	3,222

(1) No tax relief is available in respect of the donations as they were not made under the gift aid scheme.

(2) Domingo's total income exceeds £21,800, so his personal allowance of £9,030 is reduced to £7,530 (9,030 – 1,500 (24,800 – 21,800 = 3,000/2)).

Tutorial note: The non-savings income is fully covered by the personal allowance, so the first £2,320 of savings income is taxed at the starting rate of 10%.

(ii) Erigo Gomez – Income tax computation 2008–09

	£
Employment income	
Salary	36,000
Pension contributions (36,000 x 6%)	(2,160)
Charitable payroll deductions (12 x 100)	(1,200)
	32,640
Relocation costs	3,400
	36,040
Mileage allowance	(2,400)
	33,640
Personal allowance	(6,035)
Taxable income	27,605
Income tax	
£27,605 at 20%	5,521
Income tax liability	5,521

(1) Only £8,000 of relocation costs are exempt, and so the taxable benefit is £3,400 (11,400 – 8,000).

(2) The mileage allowance received will be tax-free, and Erigo can make the following expense claim:

	£
10,000 miles at 40p	4,000
8,000 miles at 25p	2,000
	6,000
Mileage allowance 18,000 at 20p	(3,600)
	2,400

(iii) Fargo Gomez – Income tax computation 2008–09

	£
Trading profit (64,800 – 2,600)	62,200
Capital allowances	(1,100)
	61,100
Personal allowance	(6,035)
Taxable income	55,065
Income tax	
£	
43,000 at 20%	8,600
12,065 (55,065 – 43,000) at 40%	4,826
55,065	
Income tax liability	13,426

(1) Fargo's period of account is nine months' long so the capital allowances in respect of his motor car are £1,100 (11,000 x 20% x 9/12 = 1,650 x 16,000/24,000).

(2) Fargo's basic rate tax band is extended by £5,200 in respect of the personal pension contribution and £3,000 (2,400 x 100/80) in respect of the gift aid donations.

(3) The revised basic rate band is therefore £43,000 (34,800 + 5,200 + 3,000).

Tutorial note: The advertising expenditure incurred during May 2008 is pre-trading, and is treated as incurred on 6 July 2008. An adjustment is therefore required.

(b) (1) Unless the return is issued late, the latest date that Domingo and Erigo can file paper self-assessment tax returns for 2008–09 is 31 October 2009.

(2) If Domingo completes a paper tax return by 31 October 2009 then HM Revenue and Customs will prepare a self-assessment tax computation on his behalf.

(3) Fargo has until 31 January 2010 to file his self-assessment tax return for 2008–09 online.

(c) (1) Domingo and Erigo were not in business during 2008–09, so their records must be retained until one year after 31 January following the tax year, which is 31 January 2011.

(2) Fargo was in business during 2008–09, so all of his records (both business and non-business) must be retained until five years after 31 January following the tax year, which is 31 January 2015.

(3) A failure to retain records for 2008–09 could result in a penalty of up to £3,000. However, the maximum penalty will only be charged in serious cases.

2 (a) Gastron Ltd – Trading profit for the year ended 31 March 2009

	£	£
Profit before taxation	640,000	
Depreciation	85,660	
Amortisation of leasehold property	6,000	
Deduction for lease premium (working 1)		4,920
Gifts of pens to customers	1,200	
Gifts of hampers to customers	1,100	
Donation	0	
Legal fees re renewal of lease	0	
Legal fees re issue of debentures	0	
Entertaining suppliers	1,300	
Entertaining employees	0	
Income from property		20,600
Bank interest		12,400
Dividends		54,000
Profit on disposal of shares		80,700
Interest payable	0	
Capital allowances (working 2)		62,640
	735,260	235,260
	(235,260)	
Trading profit	500,000	

Working 1 – Deduction for lease premium

(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 amount assessed on the landlord is £49,600 calculated as follows:

	£
Premium received	60,000
Less: 60,000 x 2% x (10 – 1)	(10,800)
	49,200

(3) This is deductible over the life of the lease, so the deduction for the year ended 31 March 2009 is £4,920 (49,200/10).

Working 2 – Plant and machinery

	£	Pool £	Motor car £	Allowances £
WDV brought forward		16,700	18,400	
Additions qualifying for AIA				
Equipment	21,600			
Lorry	17,200			
	38,800			
AIA – 100%	(38,800)			38,800
Other additions				
Motor car		9,800		
		26,500		
Proceeds – equipment		(3,300)		
		23,200		
WDA – 20%		(4,640)		4,640
WDA – Restricted			(3,000)	3,000
		18,560		
Addition qualifying for FYA				
Motor car	16,200			
FYA – 100%	(16,200)			16,200
WDV carried forward		18,560	15,400	
Total allowances				62,640

Tutorial notes:

(1) Gifts to customers are only 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.

(2) The costs of renewing a short-lease (less than 50 years) and of obtaining loan finance are allowable.

(3) The only exception to the non-deductibility of entertainment expenditure is when it is in respect of employees.

(4) Interest on a loan used for trading purposes is deductible in calculating the trading loss on an accruals basis.

(5) The cost of the equipment sold will have originally been added to the pool, so the disposal proceeds of £3,300 are deducted from the pool.

(b) Gastron Ltd – Corporation tax computation for the year ended 31 March 2009

	£
Trading profit	500,000
Property business profit	12,800
Bank interest	12,400
Chargeable gain	74,800
Profits chargeable to corporation tax	600,000
Franked investment income (36,000 x 100/90)	40,000
Profit	640,000
Corporation tax £600,000 at 28%	168,000
Marginal relief 7/400 (750,000 – 640,000) x 600,000/640,000	(1,805)
	166,195

(1) The property business profit is £12,800 calculated as follows:

	£	£
Rent receivable – First tenant (1,800 x 9)		16,200
– Second tenant (1,950 x 2)		3,900
		20,100
Impairment loss (1,800 x 2)	3,600	
Decorating	3,700	
		(7,300)
		12,800

(2) Gastron Ltd has one associated company, so the upper limit is reduced to £750,000 (1,500,000/2).

Tutorial note: Group dividends are not included as franked investment income.

(c) (1) Gastron Ltd's corporation tax liability for the year ended 31 March 2009 must be paid by 1 January 2010.

(2) If the company does not pay its corporation tax until 31 August 2010, then interest of £8,310 (166,195 at 7·5% = 12,465 x 8/12) will be charged by HM Revenue and Customs for the period 1 January 2010 to 31 August 2010.

(d) (1) Companies form a capital gains group if at each level in the group structure there is a 75% shareholding.

(2) However, the parent company must also have an effective interest of over 50% in each group company.

(e) (1) Gastron Ltd and Culinary Ltd must make the election by 31 March 2011 (within two years of the end of the accounting period in which the disposal outside of the group occurred).

(2) Culinary Ltd's otherwise unused capital loss of £66,000 can be set against Gastron Ltd's chargeable gain of £74,800.

(3) It is beneficial for the balance of the chargeable gain of £8,800 (74,800 – 66,000) to arise in Culinary Ltd as it will only be taxed at the rate of 21%, instead of at the marginal rate (29·75%) in Gastron Ltd.

3 Nim Lom – CGT liability 2008–09

	£	£
Ordinary shares in Kapook plc		
Deemed proceeds (10,000 x £3·70)	37,000	
Cost	(23,400)	
		13,600
Ordinary shares in Jooba Ltd (no gain, no loss)		–
Antique table		3,500
UK Government securities (exempt)		–
		17,100
Capital losses brought forward		(7,500)
Chargeable gains		9,600
Annual exemption		(9,600)
Taxable gains		Nil

(1) The shares in Kapook plc are valued at £3·70 ((£3·60 + £3·80)/2) as this is lower than £3·75 (£3·70 + $^{1}/_{4}$(£3·90 – £3·70)).

(2) The disposal is first matched against the purchase on 24 May 2008 (this is within the following 30 days), and then against the shares in the share pool. The cost of the shares disposed of is, therefore, £23,400 (5,800 + 17,600).

Share pool

	Number £	Cost £
Purchase 19 February 2000	8,000	16,200
Purchase 6 June 2005	6,000	14,600
	14,000	30,800
Disposal 20 May 2008 (30,800 x 8,000/14,000)	(8,000)	(17,600)
Balance carried forward	6,000	13,200

(3) The antique table is a non-wasting chattel. However, there is no restriction as the gain of £3,500 (8,700 – 5,200) is less than £4,500 (8,700 – 6,000 = 2,700 x 5/3).

(4) The set off of the brought forward capital losses is restricted to £7,500 (17,100 – 9,600) so that chargeable gains are reduced to the amount of the annual exemption.

(5) Nim therefore has capital losses carried forward of £9,200 (16,700 – 7,500).

Tutorial notes:

(1) The transfer of the 5,000 £1 ordinary shares in Jooba Ltd to Mae does not give rise to any gain or loss, because it is a transfer between spouses.

(2) The disposal of UK Government securities is exempt from CGT.

Mae Lom – CGT liability 2008–09

	£	£
Ordinary shares in Jooba Ltd		
Disposal proceeds	30,400	
Cost (16,000 x 2,000/5,000)	(6,400)	
		24,000
House		
Disposal proceeds	186,000	
Cost	(122,000)	
	64,000	
Principal private residence exemption	(56,000)	
		8,000
Goodwill	80,000	
Freehold office building	136,000	
	216,000	
Entrepreneurs' relief (216,000 x 4/9ths)	(96,000)	
		120,000
Investment property		34,000
Copyright		
Disposal proceeds	9,600	
Cost (10,000 x 15/20)	(7,500)	
		2,100
		188,100
Capital losses brought forward		(8,500)
Chargeable gains		179,600
Annual exemption		(9,600)
		170,000
Capital gains tax £170,000 at 18%		30,600

(1) One of the eight rooms in Mae's house was always used exclusively for business purposes, so the principal private residence exemption is restricted to £56,000 (64,000 x 7/8).

Tutorial notes:

(1) Nim's original cost is used in calculating the capital gain on the disposal of the shares in Jooba Ltd.

(2) The investment property does not qualify for entrepreneurs' relief because it was never used for business purposes.

(3) The copyright is a wasting asset. The cost of £10,000 must therefore be depreciated based on an unexpired life of 20 years at the date of acquisition and an unexpired life of 15 years at the date of disposal.

4 Anne Attire

(a) VAT return – Quarter ended 30 November 2008

	£	£
Output VAT		
Cash sales (28,000 x 17·5%)		4,900
Credit sales (12,000 x 95% x 17·5%)		1,995
Input VAT		
Purchases and expenses (11,200 x 17·5%)	1,960	
Impairment loss (800 x 95% x 17·5%)	133	
		(2,093)
VAT payable		4,802

(1) The VAT return for the quarter ended 30 November 2008 should have been submitted by 31 December 2008, being one month after the end of the VAT period.

Tutorial notes:

(1) The calculation of output VAT on the credit sales takes into account the discount for prompt payment, even for those 10% of customers that did not take it.

(2) Relief for an impairment loss is not given until six months from the time that payment is due. Therefore relief can only be claimed in respect of the invoice due for payment on 10 April 2008. Relief is based on the amount of output VAT that would originally have been paid taking into account the discount for prompt payment.

(b) (1) Anne can use the cash accounting scheme if her expected taxable turnover for the next 12 months does not exceed £1,350,000.

(2) In addition, Anne must be up-to-date with her VAT returns and VAT payments.

(3) Output VAT on most credit sales will be accounted for up to one month later than at present since the scheme will result in the tax point becoming the date that payment is received from customers.

(4) However, the recovery of input VAT will be delayed by two months.

(5) The scheme will provide automatic bad debt relief should a credit sale customer default on the payment of a debt.

(c) (i) Sale of assets on a piecemeal basis

(1) Upon the cessation of trading Anne will cease to make taxable supplies, so her VAT registration will be cancelled on the date of cessation or an agreed later date.

(2) Output VAT will be due in respect of the value of the fixed assets at the date of deregistration on which VAT has been claimed (although output VAT is not due if it totals less than £1,000).

(ii) Sale of business as a going concern

(1) Since the purchaser is already registered for VAT, Anne's VAT registration will be cancelled as above.

(2) A sale of a business as a going concern is outside the scope of VAT, and therefore output VAT will not be due.

5 Andrew Zoom

(a) (1) Andrew is under the control of Slick-Productions Ltd.
(2) Andrew is not taking any financial risk.
(3) Andrew works a set number of hours, is paid by the hour and is paid for overtime.
(4) Andrew cannot profit from sound management.
(5) Andrew is required to do the work personally.
(6) There is an obligation to accept work that is offered.
(7) Andrew does not provide his own equipment.

(b) (i) Treated as an employee

(1) Andrew's income tax liability for 2008–09 will be:

	£
Employment income	50,000
Personal allowance	(6,035)
Taxable income	43,965
Income tax	
£	
34,800 at 20%	6,960
9,165 at 40%	3,666
43,965	
Income tax liability	10,626

(2) Class 1 NIC for 2008–09 will be £3,906 ((40,040 – 5,435 = 34,605 at 11%) + (50,000 – 40,040 = 9,960 at 1%)).

(ii) Treated as self-employed

(1) Andrew's trading profit for 2008–09 will be £50,000, so his income tax liability will be unchanged at £10,626.

(2) Class 2 NIC for 2008–09 will be £120 (52 x 2·30).

(3) Class 4 NIC for 2008–09 will be £2,868 ((40,040 – 5,435 = 34,605 at 8%) + (50,000 – 40,040 = 9,960 at 1%)).

				Marks	
1	(a)	(i)	**Domingo Gomez**		
			Pensions	1	
			Building society interest	1	
			Interest from savings certificates	$^1/_2$	
			Donations	$^1/_2$	
			Personal allowance	2	
			Income tax	1	
					6
		(ii)	**Erigo Gomez**		
			Salary	$^1/_2$	
			Pension contributions	1	
			Charitable payroll deductions	1	
			Relocation costs	1	
			Mileage allowance	$1^1/_2$	
			Personal allowance	$^1/_2$	
			Income tax	$^1/_2$	
					6
		(iii)	**Fargo Gomez**		
			Trading profit	$^1/_2$	
			Pre-trading expenditure	1	
			Capital allowances	2	
			Personal allowance	$^1/_2$	
			Extension of basic rate band	2	
			Income tax	1	
					7
	(b)		Paper returns	2	
			Return filed online	1	
					3
	(c)		Domingo and Erigo	1	
			Fargo	1	
			Penalty	1	
					3
					25

			Marks	
2	**(a)**	Profit before taxation	$\frac{1}{2}$	
		Depreciation	$\frac{1}{2}$	
		Amortisation of leasehold property	$\frac{1}{2}$	
		Lease premium – Assessable amount	$1\frac{1}{2}$	
		– Deduction	1	
		Gifts of pens to customers	$\frac{1}{2}$	
		Gifts of hampers to customers	$\frac{1}{2}$	
		Donation	$\frac{1}{2}$	
		Legal fees re renewal of lease	$\frac{1}{2}$	
		Legal fees re issue of debentures	$\frac{1}{2}$	
		Entertaining suppliers	$\frac{1}{2}$	
		Entertaining employees	$\frac{1}{2}$	
		Income from investments	1	
		Disposal of shares	$\frac{1}{2}$	
		Interest payable	$\frac{1}{2}$	
		P & M – Pool	2	
		– AIA	$1\frac{1}{2}$	
		– Expensive motor car	1	
		– FYA	1	
				15
	(b)	Trading profit	$\frac{1}{2}$	
		Property business profit	2	
		Bank interest	$\frac{1}{2}$	
		Chargeable gain	$\frac{1}{2}$	
		Franked investment income	1	
		Group dividends	$\frac{1}{2}$	
		Corporation tax	2	
				7
	(c)	Due date	1	
		Interest	2	
				3
	(d)	75% shareholding	1	
		50% effective interest	1	
				2
	(e)	Time limit	1	
		Set off of capital losses	1	
		Tax rate	1	
				3
				30

		Marks
3 Nim Lom		
Kapook plc – Deemed proceeds	2	
– Cost	1	
– Share pool	2	
Jooba Ltd	1	
Antique table	$1\frac{1}{2}$	
UK Government securities	$\frac{1}{2}$	
Capital losses brought forward	1	
Annual exemption	$\frac{1}{2}$	
Capital losses carried forward	$\frac{1}{2}$	
Mae Lom		
Jooba Ltd – Proceeds	$\frac{1}{2}$	
– Cost	1	
House – Proceeds	$\frac{1}{2}$	
– Cost	$\frac{1}{2}$	
– Exemption	1	
Business – Goodwill	$\frac{1}{2}$	
– Office building	$\frac{1}{2}$	
– Entrepreneurs' relief	1	
– Investment property	1	
Copyright – Proceeds	$\frac{1}{2}$	
– Cost	$1\frac{1}{2}$	
Capital losses brought forward	$\frac{1}{2}$	
Annual exemption	$\frac{1}{2}$	
Capital gains tax	$\frac{1}{2}$	
		20

4 (a) Output VAT – Cash sales	1	
– Credit sales	$1\frac{1}{2}$	
Input VAT – Purchases and expenses	1	
– Impairment loss	$1\frac{1}{2}$	
Due date	1	
		6
(b) Limit	1	
VAT returns and VAT payments	1	
Output VAT	1	
Input VAT	1	
Bad debt relief	1	
		5
(c) (i) Sale of assets on a piecemeal basis		
Cancellation of VAT registration	1	
Output VAT	1	
		2
(ii) Sale of business as a going concern		
Cancellation of VAT registration	1	
Output VAT not due	1	
		2
		15

			Marks
5	**(a)** Control	$^1/_2$	
	Financial risk	$^1/_2$	
	Basis of remuneration	1	
	Sound management	$^1/_2$	
	Required to do the work personally	$^1/_2$	
	Obligation to accept work offered	$^1/_2$	
	Equipment	$^1/_2$	
			4
	(b) (i) Treated as an employee		
	Employment income	$^1/_2$	
	Personal allowance	$^1/_2$	
	Income tax liability	$^1/_2$	
	Class 1 NIC	$1^1/_2$	
			3
	(ii) Treated as self-employed		
	Income tax liability	$^1/_2$	
	Class 2 NIC	1	
	Class 4 NIC	$1^1/_2$	
			3
			10