

Fundamentals Level – Skills Module

Taxation (United Kingdom)

Tuesday 12 June 2012



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.

The Association of Chartered Certified Accountants

Paper F6 (UK)

ACCA

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	Normal rates	Dividend rates
		%	%
Basic rate	£1 – £35,000	20	10
Higher rate	£35,001 to £150,000	40	32·5
Additional rate	£150,001 and over	50	42·5

A starting rate of 10% applies to savings income where it falls within the first £2,560 of taxable income.

Personal allowance

Personal allowance	Standard	£7,475
Personal allowance	65 – 74	£9,940
Personal allowance	75 and over	£10,090
Income limit for age related allowances		£24,000
Income limit for standard personal allowance		£100,000

Car benefit percentage

The base level of CO₂ emissions is 125 grams per kilometre.

A rate of 5% applies to petrol cars with CO₂ emissions of 75 grams per kilometre or less, and a rate of 10% applies where emissions are between 76 and 120 grams per kilometre.

Car fuel benefit

The base figure for calculating the car fuel benefit is £18,800.

Individual savings accounts (ISAs)

The overall investment limit is £10,680, of which £5,340 can be invested in a cash ISA.

Pension scheme limit

Annual allowance £50,000

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

Authorised mileage allowances: cars

Up to 10,000 miles	45p
Over 10,000 miles	25p

Capital allowances: rate of allowances

	%
Plant and machinery	
Main pool	20
Special rate pool	10
Motor cars (purchases since 6 April 2009 (1 April 2009 for limited companies))	
New cars with CO ₂ emissions up to 110 grams per kilometre	100
CO ₂ emissions between 111 and 160 grams per kilometre	20
CO ₂ emissions over 160 grams per kilometre	10
Annual investment allowance	
First £100,000 of expenditure	100

Corporation tax

Financial year	2009	2010	2011
Small profits rate	21%	21%	20%
Main rate	28%	28%	26%
Lower limit	300,000	300,000	300,000
Upper limit	1,500,000	1,500,000	1,500,000
Standard fraction	7/400	7/400	3/200

Marginal relief

Standard fraction x (U – A) x N/A

Value added tax (VAT)

Standard rate	20%
Registration limit	£73,000
Deregistration limit	£71,000

Inheritance tax: tax rates

£1 – £325,000	Nil
Excess – Death rate	40%
– Lifetime rate	20%

Inheritance tax: taper relief

Years before death	Percentage reduction
	%
Over 3 but less than 4 years	20
Over 4 but less than 5 years	40
Over 5 but less than 6 years	60
Over 6 but less than 7 years	80

Capital gains tax

Rates of tax – Lower rate	18%
– Higher rate	28%
Annual exempt amount	£10,600
Entrepreneurs' relief – Lifetime limit	£10,000,000
– Rate of tax	10%

National insurance contributions (Not contracted out rates)

			%
Class 1	Employee	£1 – £7,225 per year	Nil
		£7,226 – £42,475 per year	12·0
		£42,476 and above per year	2·0
Class 1	Employer	£1 – £7,072 per year	Nil
		£7,073 and above per year	13·8
Class 1A			13·8
Class 2		£2·50 per week	
		Small earnings exemption	£5,315
Class 4		£1 – £7,225 per year	Nil
		£7,226 – £42,475 per year	9·0
		£42,476 and above per year	2·0

Rates of interest (assumed)

Official rate of interest	4·0%
Rate of interest on underpaid tax	3·0%
Rate of interest on overpaid tax	0·5%

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Question 1 begins on page 6.**

ALL FIVE questions are compulsory and MUST be attempted

- 1** On 6 April 2011 Flick Pick, aged 23, commenced employment with 3D Ltd as a film critic. On 1 January 2012 she commenced in partnership with Art Reel running a small cinema, preparing accounts to 30 April. The following information is available for the tax year 2011–12:

Employment

- (1) During the tax year 2011–12 Flick was paid a gross annual salary of £23,700.
- (2) Throughout the tax year 2011–12 3D Ltd provided Flick with living accommodation. The company had purchased the property in 2002 for £89,000, and it was valued at £144,000 on 6 April 2011. The annual value of the property is £4,600. The property was furnished by 3D Ltd during March 2011 at a cost of £9,400.

Partnership

- (1) The partnership's tax adjusted trading profit for the four-month period ended 30 April 2012 is £29,700. This figure is before taking account of capital allowances.
- (2) The only item of plant and machinery owned by the partnership is a motor car that cost £15,000 on 1 February 2012. The motor car has a CO₂ emission rate of 190 grams per kilometre. It is used by Art, and 40% of the mileage is for private journeys.
- (3) Profits are shared 40% to Flick and 60% to Art. This is after paying an annual salary of £6,000 to Art.

Property income

- (1) Flick owns a freehold house which is let out furnished. The property was let throughout the tax year 2011–12 at a monthly rent of £660.
- (2) During the tax year 2011–12 Flick paid council tax of £1,320 in respect of the property, and also spent £2,560 on replacing damaged furniture.
- (3) Flick claims the wear and tear allowance.

Value added tax (VAT)

- (1) The partnership voluntarily registered for VAT on 1 January 2012, and immediately began using the flat rate scheme to calculate the amount of VAT payable. The relevant flat rate scheme percentage for the partnership's trade is 12%.
- (2) For the quarter ended 31 March 2012 the partnership had standard rated sales of £59,700, and these were all made to members of the general public. For the same period standard rated expenses amounted to £27,300. Both figures are stated inclusive of VAT.
- (3) The partnership has two private boxes in its cinema that can be booked on a special basis by privileged customers. Such customers can book the boxes up to two months in advance, at which time they have to pay a 25% deposit. An invoice is then given to the customer on the day of the screening of the film, with payment of the balance of 75% required within seven days. For VAT purposes, the renting out of the cinema boxes is a supply of services.

Required:

(a) Calculate Flick Pick's taxable income for the tax year 2011–12. (12 marks)

(b) State what classes of national insurance contribution will be paid in respect of Flick Pick's income for the tax year 2011–12, and in each case who is responsible for paying them.

Note: You are not required to calculate the actual national insurance contributions. (4 marks)

(c) List the advantages and disadvantages for the partnership of choosing 30 April as its accounting date rather than 5 April. (4 marks)

(d) (i) Explain whether or not it was beneficial for the partnership to have used the VAT flat rate scheme for the quarter ended 31 March 2012;

Notes:

1. Your answer should be supported by appropriate calculations.

2. You should ignore the 1% reduction from the flat rate that is available during the first year of VAT registration. (3 marks)

(ii) Explain whether or not it was financially beneficial for the partnership to have voluntarily registered for VAT from 1 January 2012;

Note: Your answer should be supported by appropriate calculations. (3 marks)

(iii) Advise the partnership as to when it should account for output VAT on the renting out of its private boxes to privileged customers. (4 marks)

(30 marks)

- 2 Heavy Ltd runs a music publishing business. On 1 September 2010 Heavy Ltd acquired 100% of the ordinary share capital of Soft Ltd, a company that runs a music recording studio. Neither company has any other associated companies.

Heavy Ltd has prepared accounts for the year ended 31 December 2011, whilst Soft Ltd has prepared accounts for the 16-month period ended 31 December 2011 so as to make its accounting date coterminous with that of Heavy Ltd. The following information is available:

Heavy Ltd

- (1) The operating profit for the year ended 31 December 2011 is £433,100. Depreciation of £12,880 and amortisation of leasehold property of £9,000 (see note (2) below) have been deducted in arriving at this figure.
- (2) On 1 January 2011 Heavy Ltd acquired a leasehold office building, paying a premium of £90,000 for the grant of a ten-year lease. The office building was used for business purposes by Heavy Ltd throughout the year ended 31 December 2011.
- (3) On 1 January 2011 the tax written down values of Heavy Ltd's plant and machinery were as follows:

	£
Main pool	900
Motor car [1]	15,100
Motor car [2]	8,800
Motor car [3]	13,200
Special rate pool	21,700

The following purchases and disposals of plant and machinery took place during the year ended 31 December 2011:

	Cost/(Proceeds)
	£
23 March 2011 Purchased office equipment	22,400
19 July 2011 Sold motor car [3]	(14,600)
28 July 2011 Sold all the items included in the special rate pool	(12,300)

All the motor cars were purchased prior to 31 March 2009, originally cost more than £12,000, and have CO₂ emission rates of between 111 and 160 grams per kilometre. Motor car [2] is used by the managing director of Heavy Ltd, and 60% of the mileage is for private journeys. Motor car [3] sold on 19 July 2011 originally cost £19,200.

- (4) On 18 October 2011 Heavy Ltd sold a freehold office building to Soft Ltd for £113,600. The indexed cost of the office building on that date was £102,800.
- (5) During the year ended 31 December 2011 Heavy Ltd received the following dividends:

Company paying the dividend	£
An unconnected United Kingdom company	18,000
Soft Ltd	6,300
An unconnected overseas company	9,000

These figures were the actual cash amounts received.

Soft Ltd

- (1) The tax adjusted trading profit for the 16-month period ended 31 December 2011 is £120,200. This figure is before taking account of capital allowances.
- (2) On 1 September 2010 the tax written down value of Soft Ltd's plant and machinery in the main pool was £24,000. On 15 December 2011 Soft Ltd sold an item of plant for £3,900. The plant had originally cost £5,200.
- (3) On 4 August 2011 Soft Ltd disposed of some investments and this resulted in a chargeable gain of £16,650. On 3 September 2011 the company made a further disposal and this resulted in a capital loss of £2,900.

Required:

(a) Calculate Heavy Ltd's corporation tax liability for the year ended 31 December 2011. (18 marks)

(b) Calculate Soft Ltd's corporation tax liabilities in respect of the 16-month period ended 31 December 2011. (7 marks)

(25 marks)

3 (a) 'Tax is charged when there is a chargeable disposal of a chargeable asset by a chargeable person.'

Required:

- (i) **State which individuals are subject to capital gains tax on the disposal of chargeable assets situated in the United Kingdom;** (1 mark)
- (ii) **State which companies are subject to corporation tax on the disposal of chargeable assets situated in the United Kingdom.** (1 mark)

(b) On 19 May 2011 Winston King disposed of a painting, and this resulted in a chargeable gain of £45,860. For the tax year 2011–12 Winston has taxable income of £22,400 after the deduction of the personal allowance.

Winston is considering the sale of a business that he has run as a sole trader since 1 July 2004. The business will be sold for £260,000, and this figure, along with the respective cost of each asset, is made up as follows:

	Sale proceeds	Cost
	£	£
Freehold shop	140,000	80,000
Freehold warehouse	88,000	102,000
Net current assets	32,000	32,000
	260,000	

The assets have all been owned for more than one year. The freehold warehouse has never been used by Winston for business purposes.

Where possible, Winston will claim entrepreneurs' relief in respect of this disposal.

Required:

- (i) **Assuming that Winston King does not sell his sole tradership business, calculate his capital gains tax liability for the tax year 2011–12;** (3 marks)
- (ii) **Calculate Winston King's capital gains tax liability for the tax year 2011–12 if he sold his sole tradership business on 25 March 2012.** (4 marks)

(c) Wiki Ltd sold a freehold warehouse on 3 February 2012 for £312,000. The warehouse had been purchased on 12 November 2001 for £171,000. Wiki Ltd incurred legal fees of £2,200 in connection with the purchase of the warehouse, and legal fees of £3,400 in connection with the disposal. The relevant retail price indexes (RPIs) are as follows:

November 2001	173·6
February 2012	228·0

Wiki Ltd is unsure as to how to reinvest the proceeds from the sale of the warehouse. The company can either purchase a freehold factory for £166,000, or it can purchase a freehold office building for £296,000. The reinvestment will take place during July 2012.

All of the above buildings have been, or will be, used for business purposes by Wiki Ltd.

Required:

- (i) **Before taking account of any available rollover relief, calculate Wiki Ltd's chargeable gain in respect of the disposal of the warehouse;** (3 marks)
- (ii) **Advise Wiki Ltd of the rollover relief that will be available in respect of each of the two alternative reinvestments.**

Note: Your answer should include details of the base cost of the replacement asset for each alternative. (3 marks)

(15 marks)

4 (a) The UK Government uses tax policies to encourage certain types of activity.

Required:

Briefly explain how the UK Government's tax policies encourage:

- (i) **Individuals to save;** (1 mark)
- (ii) **Individuals to support charities;** (1 mark)
- (iii) **Entrepreneurs to build their own businesses and to invest in plant and machinery.** (2 marks)

(b) You are a trainee chartered certified accountant and your manager has asked for your help regarding two taxpayers who have both made trading losses.

Michael

Michael commenced in self-employment on 1 July 2010, preparing accounts to 5 April. His results for the first two periods of trading were as follows:

	£
Nine-month period ended 5 April 2011 – Trading loss	(24,600)
Year ended 5 April 2012 – Trading profit	7,100

For the tax years 2006–07 to 2008–09 Michael had the following income from employment:

	£
2006–07	44,500
2007–08	16,800
2008–09	50,600

Michael did not have any income during the period 6 April 2009 to 30 June 2010.

Sean

Sean has been in self-employment since 2001, but ceased trading on 31 December 2011. He has always prepared accounts to 31 December. His results for the final five years of trading were as follows:

	£
Year ended 31 December 2007 – Trading profit	21,300
Year ended 31 December 2008 – Trading profit	14,400
Year ended 31 December 2009 – Trading profit	18,900
Year ended 31 December 2010 – Trading profit	3,700
Year ended 31 December 2011 – Trading loss	(23,100)

For each of the tax years 2007–08 to 2011–12 Sean has property business profits of £7,800.

Sean has unused overlap profits brought forward of £3,600.

Required:

For each of the two taxpayers Michael and Sean, identify the loss relief claims that are available to them, and explain which of the available claims would be the most beneficial.

Notes:

1. You should clearly state the amount of any reliefs claimed and the rates of income tax saved. However, you are not expected to calculate any income tax liabilities.
2. You should assume that the tax rates and allowances for the tax year 2011–12 apply throughout.
3. The following mark allocation is provided as guidance for this requirement:

Michael (5 marks)

Sean (6 marks)

(11 marks)

(15 marks)

5 You should assume that today's date is 15 March 2012.

Ning Gao, aged 71, owns the following assets:

- (1) Two properties respectively valued at £674,000 and £442,000. The first property has an outstanding repayment mortgage of £160,000, and the second property has an outstanding endowment mortgage of £92,000.
- (2) Vintage motor cars valued at £172,000.
- (3) Investments in individual savings accounts valued at £47,000, National Savings & Investments savings certificates valued at £36,000, and government stocks (gilts) valued at £69,000.

Ning owes £22,400 in respect of a personal loan from a bank, and she has also verbally promised to pay legal fees of £4,600 incurred by her nephew.

Under the terms of her will Ning has left all of her estate to her children.

Ning's husband died on 12 March 2002, and 70% of his inheritance tax nil rate band was not used.

On 14 August 2001 Ning had made a gift of £100,000 to her daughter, and on 7 November 2011 she made a gift of £220,000 to her son. Both these figures are after deducting all available exemptions.

The nil rate band for the tax year 2001–02 is £242,000.

Required:

- (a) **Advise Ning Gao as to how much nil rate band will be available when calculating the inheritance tax payable in respect of her estate were she to die on 20 March 2012.** (4 marks)
- (b) (i) **Calculate the inheritance tax that would be payable in respect of Ning Gao's estate were she to die on 20 March 2012, and state who will be responsible for paying the tax;** (7 marks)
(ii) **Advise Ning Gao as to whether the inheritance tax payable in respect of her estate would alter if she were to live for either another six or another seven years after 20 March 2012, and if so by how much.**
Note: You should assume that both the value of Ning Gao's estate and the nil rate band will remain unchanged. (2 marks)
- (c) **State what conditions would have to be met if Ning Gao wanted to make gifts out of her income to her children so that these gifts are exempt from inheritance tax.** (2 marks)

(15 marks)

End of Question Paper