

Fundamentals Level – Skills Module

Taxation (United Kingdom)

Tuesday 4 June 2013



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 – £34,370	20	10
Higher rate	£34,371 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 £2,710 of taxable income.

Personal allowance

Personal allowance	Standard	£8,105
Personal allowance	65 – 74	£10,500
Personal allowance	75 and over	£10,660
Income limit for age related allowances		£25,400
Income limit for standard personal allowance		£100,000

Car benefit percentage

The relevant base level of CO₂ emissions is 100 grams per kilometre.

The percentage rates applying to petrol cars with CO₂ emissions up to this level are:

75 grams per kilometre or less	5%
76 grams to 99 grams per kilometre	10%
100 grams per kilometre	11%

Car fuel benefit

The base figure for calculating the car fuel benefit is £20,200.

Individual savings accounts (ISAs)

The overall investment limit is £11,280, of which £5,640 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: rates of allowance

	%
Plant and machinery	
Main pool	18
Special rate pool	8
Motor cars	
New cars with CO ₂ emissions up to 110 grams per kilometre	100
CO ₂ emissions between 111 and 160 grams per kilometre	18
CO ₂ emissions over 160 grams per kilometre	8
Annual investment allowance	
First £25,000 of expenditure	100

Corporation tax

Financial year	2010	2011	2012
Small profits rate	21%	20%	20%
Main rate	28%	26%	24%
Lower limit	£300,000	£300,000	£300,000
Upper limit	£1,500,000	£1,500,000	£1,500,000
Standard fraction	7/400	3/200	1/100

Marginal relief

Standard fraction x (U – A) x N/A

Value added tax (VAT)

Standard rate	20%
Registration limit	£77,000
Deregistration limit	£75,000

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 – £7,605 per year	Nil
		£7,606 – £42,475 per year	12·0
		£42,476 and above per year	2·0
Class 1	Employer	£1 – £7,488 per year	Nil
		£7,489 and above per year	13·8
Class 1A		13·8	
Class 2	£2·65 per week		
	Small earnings exemption	£5,595	
Class 4	£1 – £7,605 per year	Nil	
	£7,606 – £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 John and Rhonda Beach are a married couple. The following information is available for the tax year 2012–13:

John Beach

- (1) John is aged 59 and is employed by Surf plc as a sales director. During the tax year 2012–13, he was paid gross director's remuneration of £184,000.
- (2) During the tax year 2012–13, John contributed £28,000 into Surf plc's HM Revenue and Customs' registered occupational pension scheme. The company contributed a further £12,000 on his behalf. Both John and Surf plc have made exactly the same contributions for the previous five tax years.
- (3) During the period 6 April to 31 October 2012, John used his private motor car for both private and business journeys. He was reimbursed by Surf plc at the rate of 60p per mile for the following mileage:

	Miles
Normal daily travel between home and Surf plc's offices	1,180
Travel between Surf plc's offices and the premises of Surf plc's clients	4,270
Travel between home and the premises of Surf plc's clients (none of the clients' premises were located near the offices of Surf plc)	510
Total mileage reimbursed by Surf plc	<u>5,960</u>

- (4) During the period from 1 November 2012 to 5 April 2013, Surf plc provided John with a petrol powered motor car which has a list price of £28,200 and an official CO₂ emission rate of 206 grams per kilometre. Surf plc also provided John with fuel for both his business and private journeys.
- (5) During 2009 Surf plc provided John with a loan which was used to purchase a yacht. The amount of loan outstanding at 6 April 2012 was £84,000. John repaid £12,000 of the loan on 31 July 2012, and then repaid a further £12,000 on 31 December 2012. He paid loan interest of £1,270 to Surf plc during the tax year 2012–13. The taxable benefit in respect of this loan is calculated using the average method.
- (6) During the tax year 2012–13, John made personal pension contributions up to the maximum amount of available annual allowances, including any unused amounts brought forward from previous years. These contributions were in addition to the contributions he made to Surf plc's occupational pension scheme (see note (2)). John has not made any personal pension contributions in previous tax years.
- (7) John owns a holiday cottage which is let out as a furnished holiday letting, although the letting does not qualify as a trade under the furnished holiday letting rules. The property business profit for the year ended 5 April 2013 was £6,730.

Rhonda Beach

- (1) Rhonda is aged 66 and during the tax year 2012–13 she received pensions of £8,040.
- (2) In addition to her pension income, Rhonda received gross building society interest of £21,400 during the tax year 2012–13.

Required:

- (a) Calculate John Beach's income tax liability for the tax year 2012–13.** (14 marks)
- (b) Calculate the class 1 and class 1A national insurance contributions that will have been suffered by John Beach and Surf plc in respect of John's earnings and benefits for the tax year 2012–13.** (4 marks)
- (c) Calculate Rhonda Beach's income tax liability for the tax year 2012–13.** (4 marks)
- (d) State the tax advantages of a rental property qualifying as a trade under the furnished holiday letting rules.** (3 marks)

(25 marks)

- 2 (a) Greenzone Ltd runs a business providing environmental guidance. The company's summarised statement of profit or loss for the year ended 31 March 2013 is as follows:

	Note	£	£
Gross profit			404,550
Operating expenses			
Depreciation		28,859	
Repairs and renewals	1	28,190	
Other expenses	2	<u>107,801</u>	
			(164,850)
Operating profit			<u>239,700</u>

Note 1 – Repairs and renewals

Repairs and renewals are as follows:

	£
Repainting the exterior of the company's office building	8,390
Extending the office building in order to create a new reception area	<u>19,800</u>
	<u>28,190</u>

Note 2 – Other expenses

Other expenses are as follows:

	£
Entertaining UK customers	3,600
Entertaining overseas customers	1,840
Political donations	740
Donation to a charity where Greenzone Ltd received free advertising in the charity's newsletter. This was not a qualifying charitable donation	430
Gifts to customers (pens costing £30 each, not displaying Greenzone Ltd's name)	660
Gifts to customers (clocks costing £65 each and displaying Greenzone Ltd's name)	910
Balance of expenditure (all allowable)	<u>99,621</u>
	<u>107,801</u>

Note 3 – Plant and machinery

On 1 April 2012 the tax written down values of Greenzone Ltd's plant and machinery were as follows:

	£
Main pool	48,150
Special rate pool	9,200

The following motor cars were purchased during the year ended 31 March 2013:

	Date of purchase	Cost £	CO ₂ emission rate
Motor car [1]	10 April 2012	10,800	102 grams per kilometre
Motor car [2]	10 June 2012	20,400	140 grams per kilometre

The following motor cars were sold during the year ended 31 March 2013:

	Date of sale	Proceeds £	Original cost £
Motor car [3]	8 March 2013	9,100	8,500
Motor car [4]	8 March 2013	12,400	18,900

The original cost of motor car [3] has previously been added to the main pool, and the original cost of motor car [4] has previously been added to the special rate pool.

Required:

Calculate Greenzone Ltd's tax adjusted trading profit for the year ended 31 March 2013.

Note: Your computation should commence with the operating profit figure of £239,700, and should also list all of the items referred to in notes (1) and (2), indicating by the use of zero (0) any items that do not require adjustment. (10 marks)

- (b) Greenzone Ltd has held shares in four trading companies throughout the year ended 31 March 2013. All four companies prepare accounts to 31 March. The following information is available for the year ended 31 March 2013:

	Are Ltd	Be Ltd	Can Ltd	Doer Co
Residence	UK	UK	UK	Overseas
Percentage shareholding	60%	40%	90%	70%
Trading profit/(loss)	£(74,800)	£68,900	£(64,700)	£22,600
Dividends paid to Greenzone Ltd	£36,180	£35,100	£29,400	£16,650

The dividend figures are the actual cash amounts received by Greenzone Ltd during the year ended 31 March 2013.

Required:

- (i) **State, giving reasons, which of the four trading companies will be treated as being associated with Greenzone Ltd;** (2 marks)
- (ii) **Calculate the maximum amount of group relief that Greenzone Ltd can claim for the year ended 31 March 2013;** (2 marks)
- (iii) **Calculate Greenzone Ltd's corporation tax liability for the year ended 31 March 2013.**

Note: You should assume that Greenzone Ltd will claim the maximum possible amount of group relief. (5 marks)

- (c) **Note that in answering this part of the question, you are not expected to take account of any of the information provided in parts (a) and (b) above unless otherwise indicated.**

The following information is available in respect of Greenzone Ltd's value added tax (VAT) for the quarter ended 31 March 2013:

- Output VAT of £38,210 was charged in respect of sales. This figure includes output VAT of £400 on a deposit received on 29 March 2013, which is in respect of a contract that is due to commence on 20 April 2013.
- In addition to the above, Greenzone Ltd also charged output VAT of £4,330 on sales to Are Ltd and Can Ltd (see part (b) above). These two companies and Greenzone Ltd are not currently registered as a group for VAT purposes.
- The managing director of Greenzone Ltd is provided with free fuel for private mileage driven in his company motor car. The relevant quarterly scale charge is £300. This figure is inclusive of VAT.
- On 31 March 2013, Greenzone Ltd wrote off an impairment loss in respect of a sales invoice that was issued on 15 September 2012. This invoice was due for payment on 31 October 2012. Output VAT of £640 was originally paid in respect of the sale.

(5) Input VAT of £12,770 was incurred in respect of expenses. This figure includes the following input VAT:

	£
Entertaining UK customers	210
Entertaining overseas customers	139
Repainting the exterior of the company's office building	1,678
Extending the office building in order to create a new reception area	3,300

For the quarters ended 31 December 2010 and 30 September 2012, Greenzone Ltd was two months late in submitting its VAT returns and in paying the related VAT liabilities. All of the company's other VAT returns have been submitted on time, and the related VAT liabilities have been paid on time.

Required:

(i) Calculate the amount of value added tax (VAT) payable by Greenzone Ltd for the quarter ended 31 March 2013;

Note: Your calculation should clearly refer to all of the items of input VAT listed in note (5), indicating by the use of zero (0) any items that do not require adjustment. (7 marks)

(ii) Advise Greenzone Ltd of the default surcharge implications if it is two months late in submitting its VAT return for the quarter ended 31 March 2013 and in paying the related VAT liability; (2 marks)

(iii) State the advantages if Greenzone Ltd, Are Ltd and Can Ltd (see part (b) above) were to register as a group for VAT purposes. (2 marks)

(30 marks)

3 You should assume that today's date is 1 March 2013.

- (a) Ginger has a holding of 10,000 £1 ordinary shares in Nutmeg Ltd, an unquoted trading company, which she had purchased on 13 February 2004 for £2.40 per share. The current market value of the shares is £6.40 per share, but Ginger intends to sell some of the holding to her daughter at £4.00 per share during March 2013. Ginger and her daughter will elect to hold over any gain as a gift of a business asset.

For the tax year 2012–13, Ginger will not make any other disposals, and has therefore not utilised her annual exempt amount.

Required:

Explain how many £1 ordinary shares in Nutmeg Ltd Ginger can sell to her daughter for £4.00 per share during March 2013 without incurring any capital gains tax liability for the tax year 2012–13.

Note: Your answer should be supported by appropriate calculations. (4 marks)

- (b) Aom is in business as a sole trader. On 3 February 2013, she purchased a freehold factory for £168,000. Aom also owns two freehold warehouses, and wants to sell one of these during March 2013. The first warehouse was purchased on 20 March 2009 for £184,000, and can be sold for £213,000. The second warehouse was purchased on 18 July 2002 for £113,000, and can be sold for £180,000.

All of the above buildings have been, or will be, used for business purposes by Aom. She will make a claim to roll over the gain on whichever warehouse is sold against the cost of the factory.

Required:

Calculate the chargeable gain, if any, that will arise in the tax year 2012–13 if either (1) the first or (2) the second freehold warehouse is sold during March 2013. (5 marks)

- (c) Innocent and Nigel, a married couple, both have shareholdings in Cinnamon Ltd, an unquoted trading company with a share capital of 100,000 £1 ordinary shares.

Innocent has been the managing director of Cinnamon Ltd since the company's incorporation on 1 July 2004, and she currently holds 20,000 shares (with matching voting rights) in the company. These shares were subscribed for on 1 July 2004 at their par value.

Nigel has never been an employee or a director of Cinnamon Ltd, and he currently holds 3,000 shares (with matching voting rights) in the company. These shares were purchased on 23 April 2008 for £46,200.

Either Innocent or Nigel will sell 2,000 of their shares in Cinnamon Ltd during March 2013 for £65,000, but are not sure which of them should make the disposal. For the tax year 2012–13, both Innocent and Nigel have already made disposals which will fully utilise their annual exempt amounts, and they will each have taxable income of £80,000.

Required:

Calculate the capital gains tax saving if the disposal of 2,000 shares in Cinnamon Ltd during March 2013 is made by Innocent rather than Nigel. (6 marks)

(15 marks)

4 (a) 'A trader may decide to change from one accounting date to another accounting date.'

Required:

List the qualifying conditions which must be met for a change of accounting date by an unincorporated business to be recognised for tax purposes by HM Revenue and Customs. (3 marks)

(b) Meung Nong commenced in self-employment on 1 May 2010. She initially prepared accounts to 30 April, but will change her accounting date to 30 June by preparing accounts for the 14-month period to 30 June 2013. Meung's trading profits (after taking account of capital allowances) for the first two years of trading were as follows:

	£
Year ended 30 April 2011	50,400
Year ended 30 April 2012	37,200

Meung's trading profit for the 14-month period ended 30 June 2013 will be £61,500. This figure is before taking account of capital allowances. The tax written down value of her capital allowances main pool at 1 May 2012 was £10,400, and there will be no additions or disposals during the 14-month period ended 30 June 2013.

Meung's business will continue for the foreseeable future.

Required:

Calculate the amount of trading profit that will be assessed on Meung Nong for each of the tax years 2010–11, 2011–12, 2012–13 and 2013–14.

Note: You should assume that the capital allowance rates for the tax year 2012–13 apply throughout.

(7 marks)

(c) Opal Ltd has prepared accounts for the 14-month period ended 31 May 2013, and its trading profit for this period is £434,000. This figure is before taking account of capital allowances.

The tax written down value of Opal Ltd's capital allowances main pool at 1 April 2012 was £62,000. On 10 April 2013, Opal Ltd purchased machinery for £38,200.

Required:

Calculate Opal Ltd's taxable total profits for each of the accounting periods covered by the 14-month period of account ended 31 May 2013.

Note: You should assume that the capital allowance rates and allowances for the financial year 2012 apply throughout.

(5 marks)

(15 marks)

- 5 On 23 August 2007, Pere Jones made a gift of a house valued at £420,000 to his son, Phil Jones. This was a wedding gift when Phil got married.

Pere Jones

Pere died on 20 March 2013 aged 76, at which time his estate was valued at £880,000. Under the terms of his will, Pere divided his estate equally between his wife and his son, Phil. Pere had not made any gifts during his lifetime except for the gift of the house to Phil.

The nil rate band for the tax year 2007–08 is £300,000.

Phil Jones

Phil is aged 48. The house which he received as a wedding gift from Pere, his father, was always let out unfurnished until it was sold on 5 April 2013. The following income and outgoings relate to the property for the tax year 2012–13:

	£
Rent received	22,000
Sale proceeds	504,000
Cost of new boundary wall around the property (there was previously no boundary wall)	(5,300)
Cost of replacing the property's chimney	(2,800)
Legal fees paid in connection with the disposal	(8,600)
Property insurance	(2,300)

Phil has no other income or outgoings for the tax year 2012–13.

Required:

- (a) (i) Calculate the inheritance tax that will be payable as a result of Pere Jones' death; (6 marks)
- (ii) State who will be responsible for paying the inheritance tax arising from Pere Jones' gift of the house, and when this will be due. (2 marks)
- (b) Calculate Phil Jones' income tax and capital gains tax liabilities for the tax year 2012–13. (7 marks)

(15 marks)

End of Question Paper