Answers

Marks

1 (a) Richard Feast – Trading profit for the year ended 5 April 2013

	£	Marks
Net profit	32,200	
Motor expenses – Richard (4,710 x 70%)	3,297	1
Motor expenses – Chef	0	½
Parking fines	280	½
Property expenses (16,200 x 1/5)	3,240	1
Decorating – Restaurant	0	½
– Apartment	1,320	½
Other expenses – Legal fees	2,590	½
Capital allowances (working)	(3,780)	W
Trading profit	39,147	

Working – Capital allowances

	Pool	Motor car		Allowances	Marks
	£	£		£	
Additions					
Motor car [1]		14,000			½
Motor car [2]	16,800				½
WDA – 18%		(2,520)	x 30%	756	1
WDA – 18%	(3,024)			3,024	½
WDV carried forward	13,776	11,480		3,780	
					7

Tutorial note: *Both motor cars have CO_2 emissions between 111 and 160 grams per kilometre, and therefore qualify for writing down allowances at the rate of 18%. The private use of a motor car by an employee is irrelevant, since such usage will be assessed on the employee as a benefit.*

(b) Richard Feast – National insurance contributions (NIC) as employer

Chef

(1) Employer's class 1 NIC for 2012–13 is £5,315 (38,512 (46,000 – 7,488) at 13·8%). 1

(2) The relevant percentage for the car benefit is 18% (11% + 7% (135 – 100 = 35/5)). 1

(3) The motor car was available throughout 2012–13, so the benefit for 2012–13 is £3,024 (16,800 x 18%). ½

(4) Employer's class 1A NIC for 2012–13 is therefore £417 (3,024 at 13·8%). ½

Waitress

(1) No NICs were payable as the waitress earned less than the earnings threshold of £7,488. ½

Assistant chef

(1) The monthly earnings threshold is £624 (7,488/12). 1

(2) Employer's Class 1 NIC for 2012–13 is therefore £1,740 (1,576 (2,200 – 624) at 13·8% x 8). 1½

6

Tutorial note: *The alternative approach using the annual earnings threshold and then taking 8/12ths of an annual NIC figure is acceptable.*

(c) (i) Richard Feast – Self-assessment

(1) Unless the return is issued late, the latest date that Richard can file a paper self-assessment tax return for 2012–13 is 31 October 2013. 1

(2) However, he has until 31 January 2014 to file his self-assessment tax return for 2012–13 online. 1

2

		Marks
(ii)	**Richard Feast – Compliance checks**	
(1)	If HM Revenue and Customs intend to carry out a compliance check into Richard's 2012–13 tax return, they will have to notify him within 12 months of the date that they receive the return.	1
(2)	HM Revenue and Customs have the right to carry out a compliance check as regards the completeness and accuracy of any return, and such a check may be made on a completely random basis.	1
(3)	However, compliance checks are generally carried out because of a suspicion that income has been undeclared or because deductions have been incorrectly claimed. For example, where accounting ratios are out of line with industry norms.	1
		3
(d)	**Richard Feast – Value added tax (VAT)**	
(i) (1)	Richard would have been liable to compulsory VAT registration when his taxable supplies during any 12-month period exceeded £77,000.	½
(2)	This happened on 31 October 2012 when taxable supplies amounted to £84,000 (10,500 + 10,500 + 10,500 + 10,500 + 14,000 + 14,000 + 14,000).	1½
(3)	Registration is required from the end of the month following the month in which the limit is exceeded, so Richard should have been registered from 1 December 2012.	1
(4)	If Richard continued to trade after 1 December 2012 without registering for VAT, he would still have to pay the VAT due from the time he should have been registered.	1
		4
(ii) (1)	The matter is one of professional judgement, and a trainee Chartered Certified Accountant would be expected to act honestly and with integrity.	½
(2)	If Richard refuses to register for VAT, then you would be obliged to report under the money laundering regulations.	½
(3)	You should also cease to act for Richard. HM Revenue and Customs must be notified that you no longer act for Richard although you would not need to provide any reason for this.	1
		2
(iii) (1)	A simplified (or less detailed) VAT invoice can be issued by a retailer where the VAT inclusive total of the invoice is less than £250.	1
(2)	Such an invoice should be issued when a customer requests a VAT invoice.	½
(3)	A simplified VAT invoice must show the following information: The retailer's name and address The retailer's VAT registration number The date of supply (the tax point) A description of the goods or services supplied The VAT inclusive total The rate of VAT	
	(½ mark per item to maximum of)	2½
		4
(iv) (1)	VAT registered businesses have to file their VAT returns online and pay the VAT which is due electronically.	1
(2)	The deadline for doing this is one month and seven days after the end of each quarter. For example, for the quarter ended 31 March 2013 a business will have until 7 May 2013 to file its VAT return and pay any VAT which is due.	1
		2
		30

Marks

2 (a) Softapp Ltd – Corporation tax computation for the year ended 31 March 2013

	£	Marks
Operating profit	519,300	½
Depreciation	10,170	½
Amortisation	2,500	½
Deduction for lease premium (working 1)	(2,050)	W1
Debenture interest payable	(67,200)	1
Capital allowances (working 2)	(27,520)	W2
	435,200	
Overseas branch	25,600	1
Trading profit	460,800	
Property business profit (working 3)	21,800	W3
Interest income (5,600 + 2,500)	8,100	1
Chargeable gain	61,300	½
Taxable total profits	552,000	
Corporation tax (552,000 at 24%)	132,480	½
Marginal relief (working 4)		
1/100 (750,000 – 552,000)	(1,980)	W4 ½
	130,500	
Double taxation relief (working 5)	(5,500)	W5
	125,000	

Tutorial note: *Interest paid in respect of a loan used for trading purposes is deductible in calculating the trading profit.*

Working 1 – Deduction for lease premium

(1) The amount assessed on the landlord is £82,000 calculated as follows:

	£	Marks
Premium received	100,000	½
Less: 100,000 x 2% x (10 – 1)	(18,000)	1
	82,000	

(2) This is deductible over the life of the lease, so the deduction for the year ended 31 March 2013 is £2,050 (8,200 (82,000/10) x 3/12). 1½

Tutorial note: *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.*

Working 2 – Plant and machinery

	£	Main pool £	Special rate pool £	Allowances £	Marks
Additions qualifying for AIA					
Building costs	0				½
Heating system	3,600				½
Ventilation system	4,600				½
	8,200				
AIA – 100%	(8,200)		0	8,200	1
Furniture and furnishings	29,400				½
Refrigerator and cooker	1,400				½
	30,800				
AIA – 100%	(16,800)			16,800	½
		14,000			
WDA – 18%		(2,520)		2,520	½
WDV carried forward		11,480			
Total allowances				27,520	

Tutorial notes:

(1) The expenditure which is integral to the building is included in the special rate pool.

(2) It is beneficial to claim the annual investment allowance of £25,000 initially against this expenditure, as it would otherwise only qualify for writing down allowance at the rate of 8%.

Marks

Working 3 – Property business profit

	£	
Rent receivable (31,200 (15,600 + 15,600) x 5/6)	26,000	1
Security deposit	0	½
Advertising	(600)	½
Insurance (1,200 x 5/12)	(500)	1
Repairs (12,800 – 9,700)	(3,100)	1
Property business profit	21,800	

Tutorial note: *A security deposit, less the cost of making good any damage, is returned to the tenant on the cessation of a letting. It is therefore initially not treated as income.*

Working 4 – Upper limit

(1) Softapp Ltd has one associated company, so the upper limit is reduced to £750,000 (1,500,000/2). ½

Working 5 – Double taxation relief

(1) The UK corporation tax on the overseas branch profits is £6,052 (130,500 x 25,600/552,000). 1

(2) The overseas branch has paid overseas corporation tax of £5,500, and this is lower than the related UK corporation tax. 1

20

(b) Softapp Ltd – Joint election with Byte-size Ltd

(1) A joint election should be made so that Byte-Size Ltd is treated as having made Softapp Ltd's chargeable gain. 1

(2) This will mean that Byte-Size Ltd's otherwise unused capital loss of £48,200 can be set against Softapp Ltd's chargeable gain of £61,300. 1

(3) It may also be beneficial for the balance of the chargeable gain to arise in Byte-Size Ltd if it will be taxed at the small profits rate of 20%. 1

3

Tutorial note: *The balance of the gain is £13,100 (61,300 – 48,200), and this will be taxed at the small profits rate of 20% provided it does not take Byte-Size Ltd's augmented profits over the lower limit.*

(c) Softapp Ltd – Election to exempt branch profits

(1) An election, which is irrevocable and must apply to all overseas branches, will not be beneficial where the branch makes a trading loss. 1

(2) Even if the branch makes a profit, double taxation relief means that there is little UK corporation tax liability. The saving for the year ended 31 March 2013 would have been just £552 (6,052 – 5,500). 1

2

25

			Marks

3 (a) Delroy and Grant

(i) Grant – Capital gains tax liability 2012–13

		£	
Ordinary shares in Dub Ltd			
Disposal proceeds		240,000	½
Cost		(25,000)	1
		215,000	
Annual exempt amount		(10,600)	½
		204,400	
Capital gains tax: 204,400 at 28%		57,232	1
			3

Tutorial notes:

(1) *Because the whole of Delroy's chargeable gain has been held over, Grant effectively took over the original cost of £25,000.*

(2) *The disposal does not qualify for entrepreneurs' relief as Grant was neither an officer nor an employee of Dub Ltd.*

(ii) (1) The disposal would have qualified for entrepreneurs' relief as Delroy was the sales director of Dub Ltd, and his shareholding of 25% (25,000/100,000 x 100) was more than the minimum required holding of 5%. 1

(2) The capital gains tax liability would therefore have been calculated at the rate of 10%. ½

(3) There are no capital gains tax implications regarding a gift of cash. ½

2

(b) Marlon and Alvita

(i) Marlon – Chargeable gain 2012–13

	£	£	
House			
Disposal proceeds		497,000	½
Cost	146,000		½
Incidental costs (2,900 + 3,700)	6,600		1
		(152,600)	
		344,400	
Principal private residence exemption		(229,600)	1
		114,800	
			3

(1) One-third of Marlon's house was always used exclusively for business purposes, so the principal private residence exemption is restricted to £229,600 (344,400 x 2/3).

(ii) (1) The capital gains tax saving if 50% ownership of the house had been transferred to Alvita prior to its disposal would have been £6,405, calculated as follows:

		£	
Annual exempt amount	10,600 at 28%	2,968	1
Lower rate tax saving	34,370 at 10% (28% – 18%)	3,437	1
		6,405	
			2

Tutorial note: *Transferring 50% ownership of the house to Alvita prior to its disposal would have enabled her annual exempt amount and lower rate tax band of 18% for 2012–13 to be utilised.*

Marks

(c) Leroy

(i) **Leroy – Chargeable gains 2012–13**

	£	Marks
Gift of ordinary shares in Jerk-Chic plc		
Deemed proceeds (4,000 x £7·90 (£7·80 + ¼(£8·20 – £7·80)))	31,600	1
Cost (working)	(6,800)	W
	24,800	
Sale of ordinary shares in Jerk-Chic plc		
Disposal proceeds	83,400	½
Cost (working)	(20,400)	W
	63,000	

Working – Share pool

	Number	Cost £	Marks
Purchase 1 March 2004	20,000	19,800	
Purchase 20 July 2008	8,000	27,800	
	28,000	47,600	½
Disposal 23 October 2012 (47,600 x 4,000/28,000)	(4,000)	(6,800)	1
	24,000	40,800	
Disposal 2 April 2013 (40,800 x 12,000/24,000)	(12,000)	(20,400)	1
Balance carried forward	12,000	20,400	
			4

(ii) (1) Delaying the sale of the 12,000 shares in Jerk-Chic plc until 6 April 2013 would have deferred the due date for the related capital gains tax liability from 31 January 2014 to 31 January 2015. 1

15

4 **(a)** Fang

(i) **Assessments**

		£	Marks
2010–11	(1 August 2010 to 5 April 2011) 45,960 x 8/12	30,640	1
2011–12	(Year ended 31 July 2011)	45,960	½
2012–13	(Year ended 31 July 2012)	39,360	½

(1) In 2011–12 there are overlap profits of £30,640 (i.e. the eight-month period 1 August 2010 to 5 April 2011). 1

3

(ii) (1) The trading expenditure will be treated as incurred on 1 August 2010 provided it was incurred within the previous seven years and would have been allowable if the trade had already commenced. 1

(2) The computer equipment which Fang already owned will be an addition for capital allowances purposes based on its market value at 1 August 2010. 1

2

Marks

(b) Hong

Taxable income 2011–12

	£	
Trading profit	29,700	½
Loss relief brought forward *(s.83 ITA 2007)*	(2,600)	½
	27,100	
Property business profit	3,900	½
	31,000	
Loss relief *(s.64 ITA 2007)*	(31,000)	½
	0	
Personal allowance	0	½
Taxable income	0	

Taxable gain 2011–12

	£	
Chargeable gain	17,800	½
Loss relief *(s.261B TCGA 1992)* (working)	(11,600)	W
	6,200	
Annual exempt amount	(6,200)	½
Taxable gain	0	

Working – Loss relief

(1) The loss relief claim against the chargeable gain is restricted to £11,600 (chargeable gain of 17,800 less the capital loss brought forward of 6,200), which is lower than the available trading loss of £14,800 (45,800 – 31,000). 1

(2) Therefore, the trading loss carried forward is £3,200 (14,800 – 11,600). ½

5

(c) Kang, Ling and Ming

Allocation of profits

	Kang £	Ling £	Ming £	
Year ended 30 June 2011				
148,800 x 1/3	49,600	49,600	49,600	½
Year ended 30 June 2012				
1 July 2011 to 31 October 2011				
136,800 x 4/12 x 1/3	15,200	15,200	15,200	
1 November 2011 to 30 June 2012				
136,800 x 8/12 x 1/2	45,600	45,600	0	
	60,800	60,800	15,200	1½

Trading income assessments

	Kang £	Ling £	Ming £	
2011–12				
Year ended 30 June 2011	49,600	49,600	49,600	½
Period ended 31 October 2011			15,200	1
			64,800	
Relief for overlap profits			(29,400)	1
			35,400	
2012–13				
Year ended 30 June 2012	60,800	60,800		½
				5
				15

Tutorial note: *The cessation rules apply to Ming for 2011–12 since she ceased to be a partner on 31 October 2011.*

			Marks

5 (a) Afiya – Inheritance tax on death

Lifetime transfers

13 April 2011

Exempt as a transfer to spouse.			½

2 May 2011

		£	
Value transferred		400	½
Annual exemption 2011–12		(400)	½
		0	
The other two gifts are exempt as small gifts under £250.			½

14 September 2011

		£	
Value of shares held before the transfer (8,000 x £8)		64,000	1
Value of shares held after the transfer (1,500 x £3)		(4,500)	1
Value transferred		59,500	
Annual exemptions 2011–12 (balance)	2,600		1
2010–11	3,000		½
		(5,600)	
Potentially exempt transfer		53,900	

27 January 2012

		£	
Net chargeable transfer		400,000	
Inheritance tax (IHT) liability 325,000 at nil%		0	½
75,000 x 20/80		18,750	1
Gross chargeable transfer		418,750	

Additional liabilities arising on death

14 September 2011

	£	
Potentially exempt transfer	53,900	1

27 January 2012

	£	
Gross chargeable transfer	418,750	½
IHT liability 271,100 (325,000 – 53,900) at nil%	0	1
147,650 at 40%	59,060	½
IHT already paid	(18,750)	½
Additional liability	40,310	

Tutorial note: *The potentially exempt transfer becomes chargeable and utilises £53,900 of the nil rate band of £325,000 for 2012–13.*

Death estate

	£	
Value of estate	620,000	½
Spouse exemption	(150,000)	½
Chargeable estate	470,000	
IHT liability 470,000 at 40%	188,000	½
		12

			Marks
(b)	(1)	The due date for the IHT liability of £18,750 payable by Afiya was 31 July 2012, being six months from the end of the month in which the gift was made.	1
	(2)	The due date for the additional liability of £40,310 is 31 May 2013, being six months after the end of the month in which Afiya (the donor) died.	1
			2
(c)	(1)	Afiya's children will inherit the residue of £242,000 (620,000 – 150,000 – 40,000 – 188,000).	1
			15