

Fundamentals Level – Skills Module

Taxation (United Kingdom)

Tuesday 2 June 2015



Time allowed

Reading and planning: 15 minutes

Writing: 3 hours

This paper is divided into two sections:

Section A – ALL 15 questions are compulsory and MUST be attempted

Section B – ALL SIX 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.

Do NOT record any of your answers on the exam paper.

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 in Section B.

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 – £31,865	20%	10%
Higher rate	£31,866 to £150,000	40%	32·5%
Additional rate	£150,001 and over	45%	37·5%

A starting rate of 10% applies to savings income where it falls within the first £2,880 of taxable income.

Personal allowance

Personal allowance

Born on or after 6 April 1948	£10,000
Born between 6 April 1938 and 5 April 1948	£10,500
Born before 6 April 1938	£10,660

Income limit

Personal allowance	£100,000
Personal allowance (born before 6 April 1948)	£27,000

Residence status

Days in UK	Previously resident	Not previously resident
Less than 16	Automatically not resident	Automatically not resident
16 to 45	Resident if 4 UK ties (or more)	Automatically not resident
46 to 90	Resident if 3 UK ties (or more)	Resident if 4 UK ties
91 to 120	Resident if 2 UK ties (or more)	Resident if 3 UK ties (or more)
121 to 182	Resident if 1 UK tie (or more)	Resident if 2 UK ties (or more)
183 or more	Automatically resident	Automatically resident

Child benefit income tax charge

Where income is between £50,000 and £60,000, the charge is 1% of the amount of child benefit received for every £100 of income over £50,000.

Car benefit percentage

The relevant base level of CO₂ emissions is 95 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 94 grams per kilometre	11%
95 grams per kilometre	12%

Car fuel benefit

The base figure for calculating the car fuel benefit is £21,700.

New individual savings accounts (NISAs)

The overall investment limit is £15,000.

Pension scheme limit

Annual allowance – 2014–15	£40,000
– 2011–12 to 2013–14	£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 95 grams per kilometre	100%
CO ₂ emissions between 96 and 130 grams per kilometre	18%
CO ₂ emissions over 130 grams per kilometre	8%

Annual investment allowance

Rate of allowance	100%
Expenditure limit	£500,000

Cap on income tax reliefs

Unless otherwise restricted, reliefs are capped at the higher of £50,000 or 25% of income.

Corporation tax

Financial year	2012	2013	2014
Small profits rate	20%	20%	20%
Main rate	24%	23%	21%
Lower limit	£300,000	£300,000	£300,000
Upper limit	£1,500,000	£1,500,000	£1,500,000
Standard fraction	1/100	3/400	1/400

Marginal relief

Standard fraction x (U – A) x N/A

Value added tax (VAT)

Standard rate	20%
Registration limit	£81,000
Deregistration limit	£79,000

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	£11,000
Entrepreneurs' relief – Lifetime limit	£10,000,000
– Rate of tax	10%

National insurance contributions (Not contracted out rates)

Class 1	Employee	£1 – £7,956 per year	Nil
		£7,957 – £41,865 per year	12%
		£41,866 and above per year	2%
Class 1	Employer	£1 – £7,956 per year	Nil
		£7,957 and above per year	13·8%
		Employment allowance	£2,000
Class 1A			13·8%
Class 2		£2·75 per week	
		Small earnings exemption limit	£5,885
Class 4		£1 – £7,956 per year	Nil
		£7,957 – £41,865 per year	9%
		£41,866 and above per year	2%

Rates of interest (assumed)

Official rate of interest	3·25%
Rate of interest on underpaid tax	3%
Rate of interest on overpaid tax	0·5%

Section A – ALL 15 questions are compulsory and MUST be attempted

Please use the grid provided on page two of the Candidate Answer Booklet to record your answers to each multiple choice question. Do not write out the answers to the MCQs on the lined pages of the answer booklet.

Each question is worth 2 marks.

- 1 Chan died on 8 December 2014, having made a lifetime cash gift of £500,000 to a trust on 16 October 2013. Chan paid the inheritance tax arising from this gift.

Who will be responsible for paying the additional inheritance tax arising from the gift made to the trust as a result of Chan's death, and when will this be due?

- A The trustees on 30 June 2015
- B The personal representatives of Chan's estate on 8 June 2015
- C The personal representatives of Chan's estate on 30 June 2015
- D The trustees on 8 June 2015

- 2 Violet Ltd provides one of its directors with a company motor car which is used for both business and private mileage. For the quarter ended 31 March 2015, the total cost of petrol for the car was £600, of which 30% was for private use by the director. The relevant quarterly scale charge is £408. Both these figures are inclusive of value added tax (VAT).

What output VAT and input VAT entries will Violet Ltd include on its VAT return for the quarter ended 31 March 2015 in respect of the company motor car?

- A Output VAT of £68 and input VAT of £70
- B Output VAT of Nil and input VAT of £70
- C Output VAT of Nil and input VAT of £100
- D Output VAT of £68 and input VAT of £100

- 3 For the tax year 2014–15, Nog has a chargeable gain of £23,700 and a capital loss of £10,400. She has unused capital losses of £6,100 brought forward from the tax year 2013–14.

What amount of capital losses can Nog carry forward to the tax year 2015–16?

- A £3,800
- B Nil
- C £6,100
- D £2,300

- 4 For the year ended 30 November 2014, Mixiness Ltd has taxable total profits of £1,380,000 and franked investment income (FII) of £240,000. Mixiness Ltd does not have any associated companies.

What is Mixiness Ltd's corporation tax liability for the year ended 30 November 2014?

- A £351,000
- B £299,000
- C £308,200
- D £289,800

- 5 Which of the following statements correctly explains the difference between tax evasion and tax avoidance?**
- A** Both tax evasion and tax avoidance are illegal, but tax evasion involves providing HM Revenue and Customs with deliberately false information
 - B** Tax evasion is illegal, whereas tax avoidance involves the minimisation of tax liabilities by the use of any lawful means
 - C** Both tax evasion and tax avoidance are illegal, but tax avoidance involves providing HM Revenue and Customs with deliberately false information
 - D** Tax avoidance is illegal, whereas tax evasion involves the minimisation of tax liabilities by the use of any lawful means

- 6** Quinn will not make the balancing payment in respect of her tax liability for the tax year 2013–14 until 17 October 2015.

What is the total percentage of penalty which Quinn will be charged by HM Revenue and Customs (HMRC) in respect of the late balancing payment for the tax year 2013–14?

- A** 15%
- B** 10%
- C** 5%
- D** 30%

- 7 Which classes of national insurance contribution is an employer responsible for paying?**

- A** Both class 2 and class 4
- B** Class 1 only
- C** Both class 1 and class 1A
- D** Class 2 only

- 8** Alice is in business as a sole trader. On 13 May 2014, she sold a freehold warehouse for £184,000, and this resulted in a chargeable gain of £38,600. Alice purchased a replacement freehold warehouse on 20 May 2014 for £143,000. Where possible, Alice always makes a claim to roll over gains against the cost of replacement assets. Both buildings have been, or will be, used for business purposes by Alice.

What is the base cost of the replacement warehouse for capital gains tax purposes?

- A** £181,600
- B** £104,400
- C** £143,000
- D** £102,000

- 9** For the tax year 2013–14, Willard filed a paper self-assessment tax return on 10 August 2014.

What is the deadline for Willard to make an amendment to his tax return for the tax year 2013–14, and by what date will HM Revenue and Customs (HMRC) have to notify Willard if they intend to carry out a compliance check into this return?

	Amendment	Compliance check
A	10 August 2015	31 January 2016
B	10 August 2015	10 August 2015
C	31 January 2016	10 August 2015
D	31 January 2016	31 January 2016

10 For the tax year 2014–15, Chi has a salary of £53,000. She received child benefit of £1,771 during this tax year.

What is Chi's child benefit income tax charge for the tax year 2014–15?

- A £1,771
- B Nil
- C £1,240
- D £531

11 Samuel is planning to leave the UK to live overseas, having always previously been resident in the UK. He will not automatically be treated as either resident in the UK or not resident in the UK. Samuel has several ties with the UK and will need to visit the UK for 60 days each tax year. However, he wants to be not resident after he leaves the UK.

For the first two tax years after leaving the UK, what is the maximum number of ties which Samuel could keep with the UK without being treated as resident in the UK?

- A One
- B Four
- C Two
- D Three

12 Which of the following are NOT deducted when calculating the value of a person's chargeable estate for inheritance tax purposes?

- (1) An outstanding repayment mortgage
- (2) Funeral expenses
- (3) An outstanding interest-only mortgage
- (4) An outstanding endowment mortgage
- (5) A verbal promise to pay a friend's debt
- (6) Credit card debts

- A 1, 2 and 6
- B 4 and 5
- C 3 and 5
- D 1, 3 and 4

13 Naomi is self-employed. For the year ended 5 April 2015 she made a trading loss of £110,000, having made a trading profit of £24,000 for the year ended 5 April 2014. Naomi also had employment income of £92,000 for the tax year 2013–14.

What is the maximum loss relief claim which Naomi can make against her total income for the tax year 2013–14?

- A £74,000
- B £50,000
- C £110,000
- D £29,000

14 Abdul's tax liabilities for the tax years 2013–14 and 2014–15 are as follows:

	2013–14	2014–15
	£	£
Income tax payable	300	2,400
Class 4 national insurance contributions	320	1,260
Capital gains tax liability	240	0
	<hr/>	<hr/>
	860	3,660
	<hr/>	<hr/>

What payment on account will Abdul have to make on 31 July 2015 in respect of his tax liability for the tax year 2014–15?

- A £310
- B £1,830
- C £430
- D Nil

15 Ten Ltd is the parent company for a group of companies. The group structure is as follows:



Each percentage holding represents a holding of ordinary share capital.

What is the group relationship between Forty Ltd and Ten Ltd?

- A They form a group for both group relief and chargeable gains purposes
- B They form a group for group relief purposes but not for chargeable gains purposes
- C They form a group for chargeable gains purposes but not for group relief purposes
- D They do not form a group for either group relief or chargeable gains purposes

(30 marks)

Section B – ALL SIX questions are compulsory and MUST be attempted

Please write your answers to all parts of these questions on the lined pages within the Candidate Answer Booklet.

- 1** Zoe died on 17 February 2015. She had made the following gifts during her lifetime:
- (1) On 7 March 2010, Zoe made a cash gift of £270,000 to her son as a wedding gift when he got married.
 - (2) On 21 June 2010, Zoe made a cash gift of £620,000 to a trust. Zoe paid the inheritance tax arising from this gift.
- Zoe's husband had died on 25 July 2007, and 20% of his inheritance tax nil rate band of £300,000 for the tax year 2007–08 was not used.
- The nil rate band for the tax year 2009–10 is £312,000, and for the tax year 2010–11 it is £325,000.

Required:

- (a) Explain why it is important to differentiate between potentially exempt transfers and chargeable lifetime transfers for inheritance tax purposes.** (2 marks)
- (b) Calculate the additional inheritance tax which will be payable in respect of the gift made to the trust as a result of Zoe's death.** (8 marks)

(10 marks)

- 2** Luna Ltd had the following transactions in shares during the year ended 31 March 2015:
- (1) On 29 November 2014, Luna Ltd sold its entire shareholding of £1 ordinary shares in Pluto plc for £53,400. Luna Ltd had originally purchased 16,000 shares in Pluto plc on 14 June 2008 for £36,800. On 22 May 2010, Luna Ltd sold 10,000 of the shares for £46,200.
- Retail price indices (RPIs) are as follows:
- | | |
|---------------|-------|
| June 2008 | 216·8 |
| May 2010 | 223·6 |
| November 2014 | 257·0 |
- (2) On 12 February 2015, Luna Ltd's shareholding in Asteroid plc was taken over by Comet plc. Luna Ltd had originally purchased 10,000 £1 ordinary shares in Asteroid plc, and their indexed cost on 12 February 2015 was £33,000.
- Under the terms of the takeover, for each of its £1 ordinary shares in Asteroid plc, Luna Ltd received £6·50 in cash plus one £1 ordinary share in Comet plc. Immediately after the takeover, Comet plc's £1 ordinary shares were quoted at £4·50.

Required:

- (a) Explain how the indexation allowance can be used when a company makes a capital loss, or where the indexation allowance is greater than a company's unindexed gain.** (2 marks)
- (b) Calculate the chargeable gain arising from each of Luna Ltd's transactions in shares during the year ended 31 March 2015.**

Note: When calculating the chargeable gain arising from the disposal of the shareholding in Pluto plc, you should show full workings for the share pool. (8 marks)

(10 marks)

3 You should assume that today's date is 15 March 2014.

Fergus was born on 19 July 1971. He is currently self-employed, and if he continues to trade on a self-employed basis, his total income tax liability and national insurance contributions (NIC) for the tax year 2014–15 will be £33,985.

However, Fergus is considering incorporating his business on 6 April 2014. The forecast taxable total profits of the new limited company for the year ended 5 April 2015 are £100,000 (before taking account of any director's remuneration). Fergus will pay himself gross director's remuneration of £18,000 and net dividends of £40,000. The balance of the profits will remain undrawn within the new company.

Required:

Determine whether or not there will be an overall saving of tax and national insurance contributions (NIC) for the year ended 5 April 2015 if Fergus incorporates his business on 6 April 2014.

Notes:

1. You are expected to calculate the income tax payable by Fergus, the class 1 NIC payable by Fergus and the new limited company, and the corporation tax liability of the new limited company for the year ended 5 April 2015.
2. You should assume that the rates of corporation tax remain unchanged.

(10 marks)

4 Zim has been registered for value added tax (VAT) since 1 April 2005. The following information is available for the year ended 31 March 2015:

- (1) Sales invoices totalling £126,000 were issued, of which £115,200 were in respect of standard rated sales and £10,800 were in respect of zero rated sales. Zim's customers are all members of the general public.
- (2) On 31 March 2015, Zim wrote off two impairment losses which were in respect of standard rated sales. The first impairment loss was for £780, and was in respect of a sales invoice which had been due for payment on 15 August 2014. The second impairment loss was for £660, and was in respect of a sales invoice which had been due for payment on 15 September 2014.
- (3) Purchase invoices totalling £49,200 were received, of which £43,200 were in respect of standard rated purchases and £6,000 were in respect of zero rated purchases.
- (4) Rent of £1,200 is paid each month. During the year ended 31 March 2015, Zim made 13 rental payments because the invoice dated 1 April 2015 was paid early on 31 March 2015. This invoice was in respect of the rent for April 2015.
- (5) During the year ended 31 March 2015, Zim spent £2,600 on mobile telephone calls, of which 40% related to private calls.
- (6) During the year ended 31 March 2015, Zim spent £1,560 on entertaining customers, of which £240 was in respect of overseas customers.

All of the above figures are inclusive of VAT where applicable. The expenses referred to in notes (4), (5) and (6) are all standard rated.

Zim does not use either the cash accounting scheme or the flat rate scheme. He has forecast that for the year ended 31 March 2016, his total sales will be the same as for the year ended 31 March 2015.

Required:

(a) Calculate the amount of value added tax (VAT) payable by Zim for the year ended 31 March 2015.

Note: You should indicate by the use of zero any items referred to in notes (1) to (6) where there is no VAT impact. (6 marks)

(b) Explain why Zim will be permitted to use the VAT flat rate scheme from 1 April 2015, and state the circumstances in which he will have to leave the scheme. (2 marks)

(c) Explain whether or not it would have been beneficial for Zim to have used the VAT flat rate scheme for the year ended 31 March 2015.

Notes:

1. You should assume that the relevant flat rate scheme percentage for Zim's trade would have been 12% throughout the whole of the year ended 31 March 2015.
2. Your answer for this part of the question should be supported by appropriate calculations. (2 marks)

(10 marks)

5 Retro Ltd's summarised statement of profit or loss for the year ended 31 March 2015 is as follows:

	Note	£	£
Gross profit			127,100
Operating expenses			
Depreciation		27,240	
Gifts and donations	1	2,300	
Impairment loss	2	1,600	
Leasing costs	3	4,400	
Other expenses	4	<u>205,160</u>	
			(240,700)
Finance costs			
Interest payable	5		<u>(6,400)</u>
Loss before taxation			<u>(120,000)</u>

Note 1 – Gifts and donations

Gifts and donations are as follows:

	£
Gifts to employees (food hampers costing £60 each)	720
Gifts to customers (calendars costing £8 each and displaying Retro Ltd's name)	480
Political donations	420
Qualifying charitable donations	<u>680</u>
	<u>2,300</u>

Note 2 – Impairment loss

On 31 March 2015, Retro Ltd wrote off an impairment loss of £1,600 relating to a trade debt. This was in respect of an invoice which had been due for payment on 10 November 2014.

Note 3 – Leasing costs

The leasing costs of £4,400 are in respect of a motor car lease which commenced on 1 April 2014. The leased motor car has CO₂ emissions of 145 grams per kilometre.

Note 4 – Other expenses

The figure of £205,160 for other expenses includes a fine of £5,100 for a breach of health and safety regulations, and legal fees of £4,860 in connection with the defence of Retro Ltd's internet domain name. The remaining expenses are all fully allowable.

Note 5 – Interest payable

The interest payable is in respect of the company's 5% loan notes which were repaid on 31 July 2014. Interest of £9,600 was paid on 31 July 2014, and an accrual of £3,200 had been provided for at 1 April 2014. The loan notes were issued in order to finance the company's trading activities.

Additional information

Plant and machinery

On 1 April 2014, the tax written down value of the plant and machinery main pool was £39,300.

The following vehicles were purchased during the year ended 31 March 2015:

	Date of purchase	Cost £	CO ₂ emission rate
Motor car [1]	8 June 2014	14,700	124 grams per kilometre
Delivery van	3 August 2014	28,300	162 grams per kilometre
Motor car [2]	19 October 2014	12,400	86 grams per kilometre

Previous results

Retro Ltd commenced trading on 1 September 2012. The company's results for its two previous periods of trading are as follows:

	Year ended 31 August 2013	Period ended 31 March 2014
	£	£
Tax adjusted trading profit	56,600	47,900
Bank interest receivable	1,300	0
Qualifying charitable donations paid	(540)	(330)

Future results

Retro Ltd is expected to return to profitability in the year ended 31 March 2016 and to continue to be profitable in subsequent years.

Required:

(a) Calculate Retro Ltd's tax adjusted trading loss for the year ended 31 March 2015.

Note: Your computation should commence with the loss before taxation figure of £120,000, and should also list all of the items referred to in notes (1) to (5), indicating by the use of zero (0) any items which do not require adjustment. (9 marks)

(b) Assuming that Retro Ltd claims relief for its trading loss as early as possible, calculate the company's taxable total profits for the year ended 31 August 2013 and for the seven-month period ended 31 March 2014.

(4 marks)

(c) Identify the amount of unrelieved trading loss which Retro Ltd will have at 31 March 2015, and state how this can be relieved.

(2 marks)

(15 marks)

6 Wai was born on 14 June 1960. She is employed as a sales manager by Qaz plc, and the following information is available in respect of the tax year 2014–15:

- (1) During the tax year 2014–15, Wai was paid a gross monthly salary of £10,200.
- (2) In addition to her salary, Wai has been paid the following bonuses:

Amount £	Date of payment	Date of entitlement	In respect of the six-month period ended
4,600	25 April 2014	31 March 2014	31 December 2013
8,100	20 August 2014	3 July 2014	30 June 2014
2,900	3 May 2015	15 April 2015	31 December 2014

- (3) During the period 6 April to 31 August 2014, Wai used her private motor car for both private and business journeys. She was reimbursed by Qaz plc at the rate of 55p per mile for the following mileage:

	Miles
Normal daily travel between home and Qaz plc's offices	2,420
Travel between home and the premises of Qaz plc's clients (none of the clients' premises were located near the offices of Qaz plc)	8,580
Travel between home and a temporary workplace (the assignment was for ten weeks)	2,860
Total mileage reimbursed by Qaz plc	<u>13,860</u>

- (4) During the period 1 September 2014 to 5 April 2015, Qaz plc provided Wai with a petrol powered motor car which has a list price of £15,800, and an official CO₂ emission rate of 86 grams per kilometre. Qaz plc does not provide Wai with any fuel for private journeys.
- (5) During January 2015, Wai spent ten nights overseas on company business. Qaz plc paid Wai a daily allowance of £10 to cover the cost of personal incidental expenses, such as telephone calls to her family.
- (6) Throughout the tax year 2014–15, Qaz plc allowed Wai the use of two mobile telephones. The telephones had each cost £400 when purchased by the company in March 2014.
- (7) Throughout the tax year 2014–15, Qaz plc provided Wai with living accommodation. The company had purchased the property on 1 June 2011 for £142,000, and it has been provided to Wai since 1 February 2013. Improvements costing £14,400 were made to the property during October 2011, and further improvements costing £9,800 were made during August 2013. The annual value of the property is £4,600.

Required:

- (a) Calculate Wai's taxable income for the tax year 2014–15. (12 marks)
- (b) Briefly outline the information to be included in PAYE forms P60 and P11D, and state the dates by which they should have been provided to Wai for the tax year 2014–15.

Note: Your answer should be confined to the details which are relevant to Wai, although no figures are required. (3 marks)

(15 marks)

End of Question Paper