Answers

1 (a) Joe Jones – Taxable income 2009–10

	£
Employment income	
Salary – Firstly plc (11,400 x 9)	102,600
Pension contributions (102,600 x 6%)	(6,156)
	96,444
Bonus	–
Salary – Secondly plc (15,200 x 3)	45,600
Beneficial loan	2,810
Workplace nursery	–
Gym membership	1,050
Home entertainment system – Use	660
– Acquisition	3,860
Living accommodation	6,750
Furniture	816
Running costs	1,900
Childcare vouchers	585
Company gym	–
Mobile telephone	–
	160,475
Personal allowance	(6,475)
Taxable income	154,000

(1) The benefit of the beneficial loan using the average method is £3,008 ((120,000 + 70,000)/2 = 95,000 at 4·75% x 8/12).

(2) Using the strict method the benefit is £2,810 ((120,000 at 4·75% x 3/12) + (70,000 at 4·75% x 5/12)).

(3) Joe will therefore elect to have the taxable benefit calculated according to the strict method.

(4) The benefit for the use of the home entertainment system is £660 (4,400 x 20% x 9/12).

(5) The benefit for the acquisition of the home entertainment system is the market value of £3,860, as this is greater than £3,740 (4,400 – 660).

(6) The benefit for the living accommodation is the higher of the annual value of £2,600 (10,400 x 3/12) and the rent paid of £6,750 (2,250 x 3).

(7) The benefit for the use of the furniture is £816 (16,320 x 20% x 3/12).

(8) The exemption for childcare vouchers is £55 per week. The benefit for the provision of the vouchers is therefore £585 (100 – 55 = 45 x 13).

Tutorial notes:

(1) The bonus of £12,000 will have been treated as being received during 2008–09 as Joe became entitled to it during that tax year.

(2) The personal pension contributions will extend Joe's basic rate tax band, and are therefore irrelevant as regards the calculation of taxable income.

(3) The provision of a place in a workplace nursery, the use of a company gym, and the provision of one mobile telephone do not give rise to a taxable benefit.

(b) (i) (1) Joe's tax code will have been calculated by starting with his personal allowance of £6,475, and then reducing it by the value of the taxable benefits.

(2) An employee's tax code is used to adjust their salary when calculating the amount of income tax that has to be paid each week or month under the PAYE system.

(ii) Form P45

(1) Form P45 will be prepared by Firstly plc when Joe's employment ceases. It will show his taxable earnings and income tax deducted up to the date of leaving, together with his tax code at the date of leaving.

(2) Firstly plc should have provided this form to Joe immediately following his cessation of employment with the company.

Form P60

(1) Form P60 will be prepared by Secondly plc at the end of the tax year. It will show Joe's taxable earnings, income tax deducted, final tax code, national insurance contributions, and Secondly plc's name and address.

(2) Secondly plc should have provided this form to Joe by 31 May 2010.

Form P11D

(1) A separate form P11D will be prepared by both Firstly plc and Secondly plc, detailing the cash equivalents of the benefits provided to Joe.

(2) Both companies should have provided a form to Joe by 6 July 2010.

2 (a) (i) (1) Second Ltd and Fourth Ltd are not associated companies as Neung Ltd has a shareholding of less than 50% in Second Ltd, and Fourth Ltd is dormant.

(2) Third Ltd and Fifth Ltd are associated companies as Neung Ltd has a shareholding of over 50% in each case, and both are trading companies.

(ii) Neung Ltd – Corporation tax computation for the year ended 31 March 2010

	£
Operating profit	324,100
Depreciation	11,830
Amortisation	7,000
Deduction for lease premium (working 1)	(4,340)
Capital allowances (working 2)	(63,690)
	274,900
First overseas branch	41,000
Second overseas branch	(15,700)
Trading profit	300,200
Loan interest (25,200 + 12,600)	37,800
Profits chargeable to corporation tax	338,000
Franked investment income (37,800 x 100/90)	42,000
Profit	380,000
Corporation tax (338,000 at 28%)	94,640
Marginal relief	
7/400 (500,000 – 380,000) x 338,000/380,000	(1,868)
	92,772

(1) Neung Ltd has two associated companies, so the upper limit is reduced to £500,000 (1,500,000/3).

Tutorial note: The dividend of £16,200 from Third Ltd is not included as franked investment income as it is a group dividend.

Working 1 – Deduction for lease premium

(1) The amount assessed on the landlord is £86,800 calculated as follows:

	£
Premium received	140,000
Less: 140,000 x 2% x (20 – 1)	(53,200)
	86,800

(2) This is deductible over the life of the lease, so the deduction for the year ended 31 March 2010 is £4,340 (86,800/20).

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 – Capital allowances

	£	Pool £	Motor car [1] £	Special rate pool £	Allowances £
WDV brought forward		4,800	22,800	12,700	
Additions qualifying for AIA					
Ventilation system	62,000				
AIA – 100%	(50,000)				50,000
				12,000	
Other additions					
Motor car [2]				15,400	
Motor car [3]		28,600			
		33,400		40,100	
WDA – 20%		(6,680)			6,680
WDA – Restricted			(3,000)		3,000
WDA – 10%				(4,010)	4,010
WDV carried forward		26,720	19,800	36,090	
Total allowances					63,690

Tutorial notes:

(1) The ventilation system is integral to the building and so is included in the special rate pool.

(2) Motor car [1] was owned at 1 April 2009 and therefore continues to qualify for writing down allowance at the rate of 20% subject to a maximum of £3,000.

(3) Motor car [2] has CO_2 emissions over 160 grams per kilometre and therefore only qualifies for writing down allowances at the rate of 10%.

(4) Motor car [3] has CO_2 emissions between 111 and 160 grams per kilometre and therefore qualifies for writing down allowances at the rate of 20%.

(iii) (1) UK relief is not usually available for trading losses incurred by an overseas subsidiary company, whereas relief is usually available for trading losses incurred by an overseas branch.

(2) UK capital allowances will be available for capital expenditure incurred by an overseas branch. For expenditure incurred by an overseas subsidiary company relief is not available in the UK, and may not be available overseas.

(3) An overseas subsidiary company will be an associated company, and so the UK corporation tax limits will be reduced accordingly. An overseas branch cannot be an associated company.

(b) (i) Neung Ltd – Output VAT for the quarter ended 31 March 2010

	£
Sales	
VAT registered customers (44,600 – 35,200 = 9,400 x 17·5%)	1,645
Additional contract	1,400
Non-VAT registered customers (289,300 – 242,300 = 47,000 x 17·5/117·5)	7,000
Fuel scale charge (390 x 17·5/117·5)	58
	10,103

Tutorial note: The basic tax point for a supply of services is the date that they are completed, but if a VAT invoice is issued or payment received before the basic tax point, then this becomes the actual tax point. Therefore the tax point for the contract is when the VAT invoice was issued on 1 March 2010.

(ii) (1) Neung Ltd was late in submitting VAT returns and paying the related VAT liability for two previous quarters. The company has not managed to revert to a clean default surcharge record by submitting four consecutive VAT returns on time.

(2) The late payment of VAT for the quarter ended 31 March 2010 will therefore result in a surcharge of 5% of the VAT liability for that period, although this will not be collected if it is less than £400.

(3) In addition, the surcharge period will be extended to 31 March 2011.

(iii) (1) Neung Ltd must issue a VAT invoice when it makes a standard rated supply to a VAT registered customer, but there is no requirement to do so if the supply is exempt or if the supply is to a non-VAT registered customer.

(2) A VAT invoice should be issued within 30 days of the date that the supply is treated as being made.

3 **(a)** (1) Lim has owned the shares in Mal-Mil Ltd throughout one year ending with the date of disposal.

(2) Mal-Mil Ltd is a trading company.

(3) Lim's shareholding in Mal-Mil Ltd is more than 5%, and she is also a director of the company.

(b) **Lim Lam – Capital gains tax liability 2009–10**

	£	£
Land		
Disposal proceeds	260,000	
Cost	(182,000)	
		78,000
Ordinary shares in Oily plc		
Deemed proceeds (5,000 x £7·44)	37,200	
Cost	(15,925)	
		21,275
Ordinary shares in Mal-Mil Ltd		
Disposal proceeds	280,000	
Cost	(56,000)	
	224,000	
Entrepreneurs' relief (224,000 x 4/9ths)	(99,556)	
		124,444
Chargeable gains		223,719
Annual exemption		(10,100)
		213,619
Capital gains tax 213,619 at 18%		38,451

Lim's capital gains tax liability will be due on 31 January 2011.

(1) The shares in Oily plc are valued at £7·44 (£7·40 + ¼(£7·56 – £7·40)) as this is lower than £7·48 ((£7·36 + £7·60)/2).

(2) On the takeover Lim received ordinary shares valued at £17,500 (1,000 x 5 = 5,000 x £3·50) and preference shares valued at £2,500 (1,000 x 2 = 2,000 x £1·25).

(3) The cost attributable to the 5,000 ordinary shares in Oily plc is £15,925 (18,200 x 17,500/20,000 (17,500 + 2,500)).

(4) The disposal of shares in Mal-Mil Ltd is matched entirely against the shares in the share pool.

Share pool

	Number £	Cost £
Purchase 8 June 2002	125,000	142,000
Purchase 23 May 2004	60,000	117,000
	185,000	259,000
Disposal 22 March 2010 (259,000 x 40,000/185,000)	(40,000)	(56,000)
Balance carried forward	145,000	203,000

(c) **Mal-Mil Ltd – Chargeable gain on the disposal of the land**

	£	£
Disposal proceeds		162,000
Incidental costs of disposal		(3,800)
		158,200
Cost	101,250	
Enhancement expenditure	12,150	
		(113,400)
Indexation (113,400 x 0.031)		(3,515)
Chargeable gain		41,285

(1) The cost relating to the two acres of land sold is £101,250 (260,000 x 162,000/416,000 (162,000 + 254,000)).

(2) The levelling of the land is enhancement expenditure. The cost relating to the two acres of land sold is £12,150 (31,200 x 162,000/416,000).

(3) Both the cost and the enhancement expenditure were incurred during April 2009. The relevant indexation factor is therefore 0·031 (218·0 – 211·5)/211·5.

Corporation tax liability

(1) Mal-Mil Ltd's corporation tax liability for the year ended 31 December 2009 is £42,900 (163,000 + 41,285 = 204,285 at 21%).

(2) This is due on 1 October 2010.

4 (a) Sammi Smith – Company motor car

(1) The list price used in the car benefit calculation is restricted to a maximum of £80,000. The relevant percentage is restricted to a maximum of 35% (15% + 37% (320 – 135 = 185/5) = 52%).

(2) Sammi will therefore be taxed on a car benefit of £28,000 (80,000 x 35%).

(3) Sammi's marginal rate of income tax is 40%, so her additional income tax liability for 2009–10 will be £11,200 (28,000 at 40%).

(4) There are no national insurance contribution implications for Sammi.

Tutorial note: There is no fuel benefit as fuel is not provided for private journeys.

Sammi Smith – Additional director's remuneration

(1) Sammi's additional income tax liability for 2009–10 will be £10,400 (26,000 at 40%).

(2) The additional employee's Class 1 NIC liability will be £260 (26,000 at 1%).

Tutorial note: Sammi's director's remuneration exceeds the upper earnings limit of £43,875, so her additional class 1 NIC liability is at the rate of 1%.

(b) Smark Ltd – Company motor car

(1) The employer's class 1A NIC liability in respect of the car benefit will be £3,584 (28,000 at 12·8%).

(2) The motor car has a CO_2 emission rate in excess of 160 grams per kilometre, so only £22,559 (26,540 less 15%) of the leasing costs are allowed for corporation tax purposes.

(3) Smark Ltd's corporation tax liability will be reduced by £7,320 (22,559 + 3,584 = 26,143 at 28%).

Smark Ltd – Additional director's remuneration

(1) The employer's class 1 NIC liability in respect of the additional director's remuneration will be £3,328 (26,000 at 12·8%).

(2) Smark Ltd's corporation tax liability will be reduced by £8,212 (26,000 + 3,328 = 29,328 at 28%).

(c) Most beneficial alternative for Sammi Smith

(1) Under the director's remuneration alternative, Sammi will receive additional net of tax income of £15,340 (26,000 – 10,400 – 260).

(2) However, she will have to lease the motor car at a cost of £26,540, so the overall result is additional expenditure of £11,200 (26,540 – 15,340).

(3) If Sammi is provided with a company motor car then she will have an additional tax liability of £11,200, so she is in exactly the same financial position.

Most beneficial alternative for Smark Ltd

(1) The net of tax cost of paying additional director's remuneration is £21,116 (26,000 + 3,328 – 8,212).

(2) This is more beneficial than the alternative of providing a company motor car since this has a net of tax cost of £22,804 (26,540 + 3,584 – 7,320).

5 (a) Goff Green – Taxable income and gains 2005–06 to 2009–10

	2005–06	2006–07	2007–08	2008–09	2009–10
	£	£	£	£	£
Trading income	16,700	15,400	14,800	23,600	–
Additional loss relief	–	(15,400)	(14,800)	(23,600)	–
	16,700	–	–	–	–
Building society interest	3,800	3,800	3,800	3,800	3,800
	20,500	3,800	3,800	3,800	3,800
Loss relief (s.64 ITA 2007)	–	–	–	–	(3,800)
	20,500	3,800	3,800	3,800	–
Personal allowance	(6,475)	(3,800)	(3,800)	(3,800)	–
Taxable income	14,025	–	–	–	–

(1) Loss relief of £14,900 can also be claimed (under s.261B TCGA 1992) in 2009–10 against the chargeable gain of £19,700 after deducting the capital loss of £4,800.

(2) The amount of trading loss unrelieved is £12,500 (85,000 – 3,800 – 23,600 – 14,800 – 15,400 – 14,900).

Tutorial notes:

(1) It is necessary to make a claim against the total income for 2009–10 so that loss relief can be claimed against the chargeable gain.

(2) For 2008–09 it is beneficial to claim additional relief against trading profits rather than making a claim against total income, as this avoids wasting £3,800 of Goff's personal allowance.

(3) There is no restriction as regards the amount of loss relief that can be claimed in 2008–09, and the total additional loss relief claim of £30,200 (15,400 + 14,800) for 2006–07 and 2007–08 is less than the restriction of £50,000.

(b) (1) The loss relief claim against the chargeable gain has saved capital gains tax of £864 (19,700 – 4,800 – 10,100 = 4,800 at 18%).

(2) If no claim had been made then extra loss relief of £14,900 would have been carried forward against the trading profit of £40,000 for 2010–11.

(3) This would have saved income tax of £2,980 (14,900 at 20%) and Class 4 NIC of £1,192 (14,900 at 8%), with the relief only being delayed by a maximum of 12 months.

Tutorial notes:

(1) Even though a claim against the chargeable gain is no longer being made, it is not possible to utilise a further £3,800 of personal allowance, and therefore increase the amount of loss carried forward. This is because a claim against total income must be made for either 2009–10 or 2008–09 for additional relief to be available.

(2) Goff's taxable income for 2010–11 is below the higher rate limit of £37,400 and the upper earnings limit of £43,875. The income tax saving is therefore at the basic rate of 20%, and the class 4 NIC saving is at the rate of 8%.

				Marks	
1	(a)		Salary – Firstly plc	½	
			Occupational pension scheme contributions	1	
			Bonus	½	
			Salary – Secondly plc	½	
			Personal pension contributions	½	
			Beneficial loan – Average method	1½	
			– Strict method	1½	
			Workplace nursery	1	
			Gym membership	½	
			Home entertainment system – Use	1½	
			– Acquisition	1½	
			Living accommodation	2	
			Furniture	1½	
			Running costs	½	
			Childcare vouchers	1	
			Company gym	½	
			Mobile telephone	½	
			Personal allowance	½	
					17
	(b)	(i)	Basis of calculation	1	
			Deduction from salary	1	
					2
		(ii)	Form P45		
			By Firstly plc when employment ceases	½	
			Details	1	
			Date provided	½	
			Form P60		
			By Secondly plc at end of tax year	½	
			Details	1½	
			Date provided	½	
			Form P11D		
			Both employers	½	
			Details	½	
			Date provided	½	
					6
					25

				Marks	
2	(a)	(i)	Second Ltd and Fourth Ltd	1	
			Third Ltd and Fifth Ltd	1	
					2
		(ii)	Operating profit	½	
			Depreciation	½	
			Amortisation	½	
			Lease premium – Assessable amount	1½	
			– Deduction	1	
			Capital allowances – AIA	1½	
			– Pool	1½	
			– Motor car [1]	1	
			– Special rate pool	1½	
			Overseas branches	1	
			Loan interest	1	
			Franked investment income	1	
			Group dividend	½	
			Corporation tax	2	
					15
		(iii)	Relief for trading losses	1	
			Availability of capital allowances	1	
			Associated company	1	
					3
	(b)	(i)	Sales – VAT registered customers	1	
			– Additional contract	1	
			– Non-VAT registered customers	1	
			Fuel scale charge	1	
					4
		(ii)	Previous late submissions	1	
			Surcharge	1	
			Extension of surcharge period	1	
					3
		(iii)	Circumstances	2	
			Period	1	
					3
					30

			Marks	
3	(a)	Shares owned for one year	½	
		Trading company	½	
		Shareholding of more than 5%	½	
		Director	½	
				2
	(b)	Land – Proceeds	½	
		– Cost	½	
		Oily plc – Deemed proceeds	2	
		– Value of shares received	2	
		– Cost	1	
		Mal-Mil Ltd – Proceeds	½	
		– Cost	2	
		– Entrepreneurs' relief	1	
		Annual exemption	½	
		Capital gains tax	½	
		Due date	½	
				11
	(c)	**Chargeable gain**		
		Proceeds	½	
		Incidental costs of disposal	½	
		Cost	1½	
		Enhancement expenditure	1	
		Indexation	1½	
		Corporation tax liability		
		Calculation	1½	
		Due date	½	
				7
				20
4	(a)	**Company motor car**		
		Car benefit	2	
		Income tax	1	
		NIC implications	½	
		Additional director's remuneration		
		Income tax	½	
		Class 1 NIC	1	
				5
	(b)	**Company motor car**		
		Class 1A NIC	1	
		Allowable leasing costs	1	
		Corporation tax saving	1	
		Additional director's remuneration		
		Class 1 NIC	1	
		Corporation tax saving	1	
				5
	(c)	**Sammi**		
		Director's remuneration – Net of tax income	1	
		– Overall result	1	
		Conclusion	1	
		Smark Ltd		
		Director's remuneration	1	
		Conclusion	1	
				5
				15

			Marks	
5	**(a)**	Trading income	½	
		Additional loss relief – 2008–09	1	
		– 2006–07 & 2007–08	1	
		Building society interest	½	
		Loss relief 2009–10 (s.64 ITA 2007)	1	
		No other income claim in 2008–09	½	
		Personal allowance	1	
		Loss relief against chargeable gain	1	
		Trading loss unrelieved	½	
				7
	(b)	CGT saving	1	
		Additional loss relief carried forward	½	
		Tax and NIC saving	1½	
				3
				10