Fundamentals Level – Skills Module

Taxation (United Kingdom)

Monday 2 June 2008

Paper F6 (UK)

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.

ACCA

The Association of Chartered Certified Accountants

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

		%
Starting rate	£1 – £2,230	10
Basic rate	£2,231 – £34,600	22
Higher rate	£34,601 and above	40

Personal allowance

Personal allowance	Standard	£5,225
Personal allowance	65 – 74	£7,550
Personal allowance	75 and over	£7,690
Income limit for age related allowances		£20,900

Car benefit percentage

The base level of CO_2 emissions is 140 grams per kilometre.

Car fuel benefit

The base figure for calculating the car fuel benefit is £14,400.

Pension scheme limits

Annual allowance	£225,000

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

Authorised mileage allowances: cars

Up to 10,000 miles	40p
Over 10,000 miles	25p

Capital allowances

		%
Plant and machinery		
Writing down allowance		25
First year allowance	– Plant and machinery	40
	– Low emission motor cars (CO_2 emissions of less than 120 grams per kilometre)	100

For small businesses only: the rate of plant and machinery first year allowance is increased to 50% for the period from 1 April 2006 to 31 March 2008 (6 April 2006 to 5 April 2008 for unincorporated businesses).

Long life assets	
Writing-down allowance	6
Industrial buildings	
Writing-down allowance	4

Corporation tax

Financial year	**2005**	**2006**	**2007**
Small companies rate	19%	19%	20%
Full rate	30%	30%	30%
Lower limit	300,000	300,000	300,000
Upper limit	1,500,000	1,500,000	1,500,000
Marginal relief fraction	11/400	11/400	1/40

Marginal relief

(M – P) x I/P x Marginal relief fraction

Value added tax

	£
Registration limit	64,000
Deregistration limit	62,000

Capital gains tax: annual exemption

Individuals	£9,200

Capital gains tax: taper relief

Complete years after 5 April 1998 for which asset held	Percentage of gains chargeable after relief: Business assets	Percentage of gains chargeable after relief: Non-business assets
1	50%	100%
2	25%	100%
3	25%	95%
4	25%	90%
5	25%	85%
6	25%	80%
7	25%	75%
8	25%	70%
9	25%	65%
10	25%	60%

National insurance contributions
(not contracted out rates)

			%
Class 1	Employee	£1 – £5,225 per year	Nil
		£5,226 – £34,840 per year	11·0
		£34,841 and above per year	1·0
Class 1	Employer	£1 – £5,225 per year	Nil
		£5,226 and above per year	12·8
Class 1A			12·8
Class 2		£2·20 per week	
Class 4		£1 – £5,225 per year	Nil
		£5,226 – £34,840 per year	8·0
		£34,841 and above per year	1·0

Rates of interest

Official rate of interest:	6·25%
Rate of interest on underpaid tax:	7·5% (assumed)
Rate of interest on overpaid tax:	3·0% (assumed)

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Question 1 begins on page 6.

ALL FIVE questions are compulsory and MUST be attempted

1 Sam and Kim White are a married couple. Sam is aged 36 and Kim is aged 38. The following information is available for the tax year 2007–08:

Sam White

(1) Sam is self-employed running a retail clothing shop. His profit and loss account for the year ended 5 April 2008 is as follows:

	Note	£	£
Gross profit			140,300
Depreciation		7,600	
Motor expenses	2	8,800	
Patent royalties	3	700	
Professional fees	4	1,860	
Other expenses	5	71,340	
			(90,300)
Net profit			50,000

(2) During the year ended 5 April 2008 Sam drove a total of 25,000 miles, of which 5,000 miles were driven when he visited his suppliers in Europe. The balance of the mileage is 25% for private journeys and 75% for business journeys in the United Kingdom.

(3) During the year ended 5 April 2008 Sam paid patent royalties of £700 (gross) in respect of specialised technology that he uses when altering clothes for customers.

(4) The figure for professional fees consists of £1,050 for legal fees in connection with an action brought against a supplier for breach of contract and £810 for accountancy. Included in the figure for accountancy is £320 in respect of personal capital gains tax advice for the tax year 2006–07.

(5) The figure for other expenses of £71,340 includes £560 for gifts to customers of food hampers costing £35 each and £420 for gifts to customers of pens carrying an advertisement for the clothing shop costing £60 each.

(6) Sam uses one of the eight rooms in the couple's private house as an office for when he works at home. The total running costs of the house for the year ended 5 April 2008 were £5,120. This cost is not included in the profit and loss account expenses of £90,300.

(7) Sam uses his private telephone to make business telephone calls. The total cost of the private telephone for the year ended 5 April 2008 was £1,600, and 25% of this related to business telephone calls. The cost of the private telephone is not included in the profit and loss account expenses of £90,300.

(8) During the year ended 5 April 2008 Sam took goods out of the clothing shop for his personal use without paying for them and no entry has been made in the accounts to record this. The goods cost £820, and had a selling price of £1,480.

(9) The tax written down values for capital allowance purposes at 6 April 2007 were as follows:

	£
General pool	14,800
Expensive motor car	20,200

The expensive motor car is used by Sam.

Kim White

(1) Kim is employed as a sales person by Sharp-Suit plc, a clothing manufacturing company. During the tax year 2007–08 she was paid a gross annual salary of £21,600.

(2) On 1 June 2007 Sharp-Suit plc provided Kim with an interest free loan of £12,000 so that she could purchase a new motor car.

(3) During the period from 1 June 2007 to 5 April 2008 Kim used her private motor car for business and private purposes. She received no reimbursement from Sharp-Suit plc for any of the expenditure incurred. Kim's mileage during this period included the following:

	Miles
Normal daily travel between home and permanent workplace	3,400
Travel between permanent workplace and Sharp-Suit plc's customers	11,200
Travel between home and a temporary workplace for a period of one month	1,300

(4) During the tax year 2007–08 Kim paid interest of £140 (gross) on a personal loan taken out on 1 January 2007 to purchase a laptop computer for use in her employment with Sharp-Suit plc.

Joint income – Building society deposit account

The couple have savings of £25,000 in a building society deposit account which is in their joint names.

During the tax year 2007–08 Sam and Kim received building society interest totalling £1,200 from this joint account. This was the actual cash amount received.

Required:

(a) Calculate Sam's tax adjusted trading profit for the year ended 5 April 2008. (11 marks)

(b) Calculate Sam and Kim's respective income tax liabilities for the tax year 2007–08.

Note: you should ignore any capital allowances that Kim might be entitled to. (10 marks)

(c) Explain to Sam and Kim how their overall income tax liability could be reduced if they were to either:

(i) transfer their joint building society deposit account into individual savings accounts (ISAs); or (2 marks)

(ii) transfer their joint building society deposit account into Kim's sole name. (2 marks)

(25 marks)

2 (a) Wireless Ltd, a United Kingdom resident company, commenced trading on 1 October 2007 as a manufacturer of computer routers. The company prepared its first accounts for the six-month period ended 31 March 2008. The following information is available:

Trading profit

The tax adjusted trading profit based on the draft accounts for the six-month period ended 31 March 2008 is £68,400. This figure is **before** making any adjustments required for:

(1) Capital allowances.

(2) Director's remuneration of £23,000 paid to the managing director of Wireless Ltd, together with the related employer's Class 1 national insurance contributions. The remuneration is in respect of the period ended 31 March 2008 but was not paid until 5 April 2008. No accrual has been made for this remuneration in the draft accounts. The managing director received no other remuneration from Wireless Ltd during the tax year 2007–08.

Plant and machinery

Wireless Ltd purchased the following assets in respect of the six-month period ended 31 March 2008:

		£
20 September 2007	Office equipment	3,400
5 October 2007	Machinery	10,200
11 October 2007	Building alterations necessary for the installation of the machinery	4,700
18 February 2008	Motor car	10,600

The motor car purchased on 18 February 2008 is used by the sales manager, and 15% of the mileage is for private journeys.

Wireless Ltd is a small company as defined by the Companies Acts.

Construction of factory

Wireless Ltd had a new factory constructed at a cost of £200,000 that the company brought into use on 1 November 2007. The cost was made up as follows:

	£
Land	60,000
Site preparation	8,000
Canteen for employees	22,000
General offices	42,000
Factory	68,000
	200,000

The factory is used for industrial purposes.

Loan interest received

Loan interest of £1,110 was received on 31 March 2008. The loan was made for non-trading purposes.

Overseas dividend

On 31 March 2008 Wireless Ltd received a dividend of £6,750 (net) from a 100% owned subsidiary company that is resident overseas. Withholding tax was withheld from the dividend at the rate of 10%. The rate of underlying tax on the profits attributable to the dividend was 25%.

Donation

A donation to charity of £1,800 was paid on 20 March 2008. The donation was made under the gift aid scheme.

Required:

(i) Explain when an accounting period starts for corporation tax purposes; (2 marks)

(ii) Calculate Wireless Ltd's profits chargeable to corporation tax for the six-month period ended 31 March 2008. (14 marks)

(b) Note that in answering this part of the question you are not expected to take account of any of the information provided in part (a) above.

Wireless Ltd's sales since the commencement of trading on 1 October 2007 have been as follows:

		£
2007	October	9,700
	November	18,200
	December	21,100
2008	January	14,800
	February	23,300
	March	24,600

The above figures are stated exclusive of value added tax (VAT).

The company's sales are all standard rated and are made to VAT registered businesses.

Wireless Ltd only sells goods and since registering for VAT has been issuing sales invoices to customers that show (1) the invoice date and the tax point, (2) Wireless Ltd's name and address, (3) the VAT-exclusive amount for each supply, (4) the total VAT-exclusive amount and (5) the amount of VAT payable. The company does not offer any discount for prompt payment.

Required:

(i) Explain from what date Wireless Ltd was required to compulsorily register for VAT and state what action the company then had to take as regards notifying HM Revenue and Customs (HMRC) of the registration. (4 marks)

(ii) Explain the circumstances in which Wireless Ltd would have been allowed to recover input VAT incurred on goods purchased and services incurred prior to the date of VAT registration. (4 marks)

(iii) Explain why it would have been beneficial for Wireless Ltd to have voluntarily registered for VAT from 1 October 2007. (3 marks)

(iv) State the additional information that Wireless Ltd must show on its sales invoices in order for them to be valid for VAT purposes. (3 marks)

(30 marks)

3 Wilson Biazma is resident and ordinarily resident in the United Kingdom for tax purposes. He disposed of the following assets during the tax year 2007–08:

(1) On 21 April 2007 Wilson sold a freehold office building for £246,000. The office building had been purchased on 3 January 1990 for £104,000. Wilson has made a claim to rollover the gain on the office building against the replacement cost of a new freehold office building that was purchased on 14 January 2007 for £136,000. Both office buildings have always been used entirely for business purposes in a wholesale business run by Wilson as a sole trader. The indexation factor from January 1990 to April 1998 is 0·360 and from January 1990 to April 2007 it is 0·700.

(2) On 26 May 2007 Wilson incorporated a retail business that he had run as a sole trader since 1 June 2005. The market value of the business on 26 May 2007 was £200,000. All of the business assets were transferred to a new limited company, with the consideration consisting of 140,000 £1 ordinary shares valued at £140,000 and £60,000 in cash. The only chargeable asset of the business was goodwill and this was valued at £120,000 on 26 May 2007. The goodwill has a nil cost. Wilson took full advantage of the available incorporation relief.

(3) On 17 August 2007 Wilson made a gift of his entire holding of 10,000 £1 ordinary shares (a 100% holding) in Gandua Ltd, an unquoted trading company, to his daughter. The market value of the shares on that date was £160,000. The shares had been purchased on 8 January 2007 for £112,000. On 17 August 2007 the market value of Gandua Ltd's chargeable assets was £180,000, of which £150,000 was in respect of chargeable business assets. Wilson and his daughter have elected to hold over the gain on this gift of a business asset.

(4) On 3 October 2007 an antique vase owned by Wilson was destroyed in a fire. The antique vase had been purchased on 7 November 2005 for £49,000. Wilson received insurance proceeds of £68,000 on 20 December 2007 and on 22 December 2007 he paid £69,500 for a replacement antique vase. Wilson has made a claim to defer the gain arising from the receipt of the insurance proceeds.

(5) On 9 March 2008 Wilson sold ten acres of land for £85,000. He had originally purchased twenty acres of land on 29 June 1999 for £120,000. The market value of the unsold ten acres of land as at 9 March 2008 was £65,000. The land has never been used for business purposes.

Required:

(a) Briefly explain when a person will be treated as resident or ordinarily resident in the United Kingdom for a particular tax year and state how a person's residence status establishes whether or not they are liable to capital gains tax.

Note: you are not expected to explain the rules concerning people leaving or coming to the United Kingdom.
(4 marks)

(b) Calculate Wilson's chargeable gains for the tax year 2007–08, clearly identifying the effects of the reliefs claimed in respect of disposals (1) to (4). (16 marks)

(20 marks)

4 Pi Casso has been a self-employed artist since 1990, making up her accounts to 30 June. Pi's tax liabilities for the tax years 2005–06, 2006–07 and 2007–08 are as follows:

	2005–06	2006–07	2007–08
	£	£	£
Income tax liability	3,240	4,100	2,730
Class 2 national insurance contributions	109	109	114
Class 4 national insurance contributions	1,240	1,480	990
Capital gains tax liability	–	4,880	–

No income tax has been deducted at source.

Required:

(a) Prepare a schedule showing the payments on account and balancing payments that Pi will have made or will have to make during the period from 1 July 2007 to 31 March 2009, assuming that Pi makes any appropriate claims to reduce her payments on account.

Note: your answer should clearly identify the relevant due date of each payment. (7 marks)

(b) State the implications if Pi had made a claim to reduce her payments on account for the tax year 2007–08 to nil. (2 marks)

(c) Advise Pi of the latest date by which her self-assessment tax return for the tax year 2007–08 should be submitted if she wants HM Revenue and Customs (HMRC) to prepare the self-assessment tax computation on her behalf. (3 marks)

(d) State the date by which HMRC will have to notify Pi if they intend to enquire into her self-assessment tax return for the tax year 2007–08 and the possible reasons why such an enquiry would be made. (3 marks)

(15 marks)

5 Do-Not-Panic Ltd is a United Kingdom resident company that installs burglar alarms. The company commenced trading on 1 January 2007 and its results for the fifteen-month period ended 31 March 2008 are summarised as follows:

(1) The trading profit as adjusted for tax purposes is £315,000. This figure is **before** taking account of capital allowances.

(2) Do-Not-Panic Ltd purchased equipment for £24,000 on 20 February 2007. The company is a small company as defined by the Companies Acts.

(3) On 21 December 2007 Do-Not-Panic Ltd disposed of some investments and this resulted in a capital loss of £4,250. On 28 March 2008 the company made a further disposal and this resulted in a chargeable gain of £42,000.

(4) Franked investment income of £25,000 was received on 22 February 2008.

Do-Not-Panic Ltd has no associated companies.

Required:

Calculate Do-Not-Panic Ltd's corporation tax liabilities in respect of the fifteen-month period ended 31 March 2008 and advise the company by when these should be paid.

(10 marks)

End of Question Paper