Fundamentals Level – Skills Module

Taxation (United Kingdom)

Tuesday 6 December 2011

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

		Normal rates %	Dividend rates %
Basic rate	£1 – £37,400	20	10
Higher rate	£37,401 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 £2,440 of taxable income.

Personal allowance

Personal allowance	Standard	£6,475
Personal allowance	65 – 74	£9,490
Personal allowance	75 and over	£9,640
Income limit for age related allowances		£22,900
Income limit for standard personal allowance		£100,000

Car benefit percentage

The base level of CO_2 emissions is 130 grams per kilometre.

A rate of 5% applies to petrol cars with CO_2 emissions of 75 grams per kilometre or less, and a rate of 10% applies where emissions are between 76 and 120 grams per kilometre.

Car fuel benefit

The base figure for calculating the car fuel benefit is £18,000.

Pension scheme limit

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: rate of allowances

	%
Plant and machinery	
Main pool	20
Special rate pool	10
Motor cars (purchases since 6 April 2009 (1 April 2009 for limited companies))	
CO_2 emissions up to 110 grams per kilometre	100
CO_2 emissions between 111 and 160 grams per kilometre	20
CO_2 emissions over 160 grams per kilometre	10
Annual investment allowance	
First £100,000 of expenditure	100
Industrial buildings	
Writing down allowance	1

Corporation tax

Financial year	2008	2009	2010
Small profits rate	21%	21%	21%
Main rate	28%	28%	28%
Lower limit	300,000	300,000	300,000
Upper limit	1,500,000	1,500,000	1,500,000
Standard fraction	7/400	7/400	7/400

Marginal relief

Standard fraction x (U – A) x N/A

Value added tax (VAT)

Standard rate	– Up to 3 January 2011	17·5%
	– From 4 January 2011 onwards	20·0%
Registration limit		£70,000
Deregistration limit		£68,000

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

Rate of tax – Lower rate	18%
– Higher rate	28%
Annual exempt amount	£10,100
Entrepreneurs' relief – Lifetime limit	£5,000,000
– Rate of tax	10%

National insurance contributions
(Not contracted out rates)

			%
Class 1	Employee	£1 – £5,715 per year	Nil
		£5,716 – £43,875 per year	11·0
		£43,876 and above per year	1·0
Class 1	Employer	£1 – £5,715 per year	Nil
		£5,716 and above per year	12·8
Class 1A			12·8
Class 2		£2·40 per week	
		Small earnings exemption	£5,075
Class 4		£1 – £5,715 per year	Nil
		£5,716 – £43,875 per year	8·0
		£43,876 and above per year	1·0

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 Philip, Charles and William Wind are grandfather, father and son. The following information is available for the tax year 2010–11:

Philip Wind

Philip is aged 78. During the tax year 2010–11 he received pensions of £9,600.

In addition to his pension income, Philip received building society interest of £14,880 during the tax year 2010–11. This was the actual cash amount received.

Charles Wind

Charles is aged 49. He is self-employed as an architect, and his tax adjusted trading profit for the year ended 31 December 2010 was £109,400.

During the tax year 2010–11 Charles made a gift aid donation of £800 (gross) to a national charity.

William Wind

William is aged 23. He is employed as a security consultant by Crown plc, a company that supplies security services. During the tax year 2010–11 William was paid a gross annual salary of £182,700.

During the tax year 2010–11 William contributed £7,300 into Crown plc's HM Revenue and Customs' registered occupational pension scheme. The company contributed a further £10,950 on his behalf.

Throughout the tax year 2010–11 Crown plc provided William with a petrol-powered motor car which has a list price of £83,100. The motor car cost Crown plc £78,800, and it has an official CO_2 emission rate of 237 grams per kilometre. Crown plc also provided William with fuel for private journeys. During the tax year 2010–11 William made contributions of £8,000 to Crown plc in respect of the motor car. This consisted of £4,800 for the use of the motor car, and £3,200 towards the cost of fuel for private journeys. The total cost of the fuel for private journeys was £4,400.

Required:

(a) Calculate the respective income tax liabilities for the tax year 2010–11 of:

(i) Philip Wind; (4 marks)

(ii) Charles Wind; (4 marks)

(iii) William Wind. (7 marks)

(b) Calculate the respective national insurance contributions, if any, suffered by Philip, Charles and William Wind for the tax year 2010–11. (4 marks)

(c) Explain to Charles and William Wind, with supporting calculations, how their respective income tax liabilities for the tax year 2010–11 would have been reduced if:

(i) Charles Wind had contributed £8,600 (gross) into a personal pension scheme during the tax year 2010–11; (3 marks)

(ii) William Wind's contributions of £8,000 to Crown plc in respect of the company motor car for the tax year 2010–11 had been allocated on a more beneficial basis. (3 marks)

(25 marks)

2 Starfish Ltd, a retailer of scuba diving equipment, was incorporated on 15 October 2006, and commenced trading on 1 December 2006. The company initially prepared accounts to 31 March, but changed its accounting date to 31 December by preparing accounts for the nine-month period ended 31 December 2010. Starfish Ltd ceased trading on 31 March 2011, and a resolution was subsequently passed to commence winding up procedures.

Starfish Ltd's results for each of its periods of account up to 31 December 2010 are as follows:

	Tax adjusted trading profit/(loss)	Bank interest	Gift aid donations
	£	£	£
Four-month period ended 31 March 2007	(12,600)	600	(800)
Year ended 31 March 2008	64,200	1,400	(1,000)
Year ended 31 March 2009	53,900	1,700	(900)
Year ended 31 March 2010	14,700	0	(700)
Nine-month period ended 31 December 2010	49,900	0	(600)

The company's summarised income statement for its final three-month period of trading ended 31 March 2011 is as follows:

	Note	£	£
Gross profit			16,100
Expenses			
Depreciation		25,030	
Donations	1	1,650	
Impairment loss	2	2,000	
Legal fees	3	9,370	
Other expenses	4	168,050	
			(206,100)
Loss before taxation			(190,000)

Note 1 – Donations

Donations were made to the following:

	£
A political party	300
A national charity not paid under the gift aid scheme	600
A national charity paid under the gift aid scheme	750
	1,650

Note 2 – Impairment loss

On 31 March 2011 Starfish Ltd wrote off an impairment loss of £2,000 in respect of a trade debt.

Note 3 – Legal fees

Legal fees were in connection with the following:

	£
Defence of the company's internet domain name	3,490
Court action for publishing a misleading advertisement	2,020
Issue of 6% loan notes that was subsequently cancelled	3,860
	9,370

Note 4 – Other expenses

Other expenses are as follows:

	£
Entertaining customers	3,600
Entertaining employees	1,840
Counselling services provided to employees who were made redundant	8,400
Balance of expenditure (all allowable)	154,210
	168,050

Note 5 – Plant and machinery

On 1 January 2011 the tax written down values of the company's plant and machinery were as follows:

	£
Main pool	23,600
Motor car	13,200

The motor car was purchased on 18 June 2008 and has CO_2 emissions of 190 grams per kilometre. It is used by the managing director, and 20% of the mileage is for private journeys.

On 10 January 2011 Starfish Ltd purchased a laptop computer for £3,120. This figure is inclusive of value added tax (VAT).

On 31 March 2011 the company sold all of the items included in the main pool for £31,200, the laptop computer for £1,800, and the motor car for £9,600. These figures are inclusive of VAT where applicable. None of the items included in the main pool was sold for more than its original cost, and all of the items were standard rated.

Note 6 – Final VAT return

Starfish Ltd deregistered from VAT on 31 March 2011. The following information relates to the company's final VAT return for the quarter ended 31 March 2011:

(i) Cash sales revenue amounted to £41,160, of which £38,520 was in respect of standard rated sales and £2,640 was in respect of zero-rated sales.

(ii) Sales invoices totalling £2,000 were issued in respect of credit sales revenue. This figure is exclusive of VAT, and the sales were all standard rated. Starfish Ltd offered all of its credit sale customers a 4% discount for payment within 14 days of the date of the sales invoice, and 60% of the customers paid within this period.

(iii) In addition to the above sales revenue, Starfish Ltd sold its remaining inventory of scuba diving equipment on 31 March 2011 for £28,800. The inventory had originally cost £32,400.

(iv) There were no purchases of inventory during the period.

(v) Standard rated expenses amounted to £69,960, of which £4,320 was in respect of entertaining customers.

(vi) The impairment loss which Starfish Ltd wrote off on 31 March 2011 (as per note (2) above) was in respect of a sales invoice (exclusive of VAT) that was due for payment on 8 August 2010. Output VAT of £336 was originally paid in respect of this sale.

(vii) Purchases and sales of non-current assets during the period are as per note (5) above.

Unless otherwise stated, all of the above figures are inclusive of VAT where applicable. There were no transactions during the period 1 January 2011 to 3 January 2011.

Starfish Ltd did not use the cash accounting scheme.

Required:

(a) **State when an accounting period starts and when an accounting period finishes for corporation tax purposes.** (4 marks)

(b) **Calculate Starfish Ltd's tax adjusted trading loss for the three-month period ended 31 March 2011.**

Notes:

1. Your computation should commence with the loss before taxation figure of £190,000, and should also list all of the items referred to in notes (1) to (4) indicating by the use of zero (0) any items that do not require adjustment.
2. In answering this part of the question you are not expected to take account of any of the information provided in note (6) above regarding the final VAT return. (12 marks)

(c) **Assuming that Starfish Ltd claims relief for its trading losses on the most beneficial basis, calculate the company's taxable total profits for the four-month period ended 31 March 2007, the years ended 31 March 2008, 2009 and 2010 and the nine-month period ended 31 December 2010.** (5 marks)

(d) **(i)** **Calculate the amount of VAT payable by Starfish Ltd in respect of its final VAT return for the quarter ended 31 March 2011;**

Notes:

1. In answering this part of the question you are not expected to take account of any of the information provided in notes (1), (3) or (4) above.
2. You should ignore the output VAT scale charge due in respect of fuel for private journeys. (7 marks)

(ii) **Explain, with supporting calculations, how your answer to part (d)(i) above would differ if Starfish Ltd had instead sold its entire business as a going concern to a single VAT registered purchaser.** (2 marks)

(30 marks)

3 Jorge Jung disposed of the following assets during the tax year 2010–11:

(1) On 30 June 2010 Jorge sold a house for £308,000. The house had been purchased on 1 January 1993 for £98,000, and throughout the 210 months of ownership had been occupied by Jorge as follows:

Months	
16	Occupied
18	Unoccupied – Travelling overseas
24	Unoccupied – Required to work overseas by his employer
11	Occupied
30	Unoccupied – Required to work elsewhere in the United Kingdom by his employer
22	Unoccupied – Travelling overseas
26	Unoccupied – Required to work elsewhere in the United Kingdom by his employer
17	Occupied
12	Unoccupied – Required to work overseas by his employer
13	Unoccupied – Travelling overseas
21	Unoccupied – Lived with sister
210	

Jorge let the house out during all of the periods when he did not occupy it personally. Throughout the period 1 January 1993 to 30 June 2010 Jorge did not have any other main residence.

(2) On 30 September 2010 Jorge sold a copyright for £8,200. The copyright had been purchased on 1 October 2008 for £7,000 when it had an unexpired life of 10 years.

(3) On 6 October 2010 Jorge sold a painting for £5,400. The painting had been purchased on 18 May 2006 for £2,200.

(4) On 29 October 2010 Jorge sold a motor car for £10,700. The motor car had been purchased on 21 December 2008 for £14,600.

(5) On 3 December 2010 Jorge sold two acres of land for £92,000. Jorge's father-in-law had originally purchased three acres of land on 4 August 1998 for £19,500. The father-in-law died on 17 June 2005, and the land was inherited by Jorge's wife. On that date the three acres of land were valued at £28,600. Jorge's wife transferred the land to him on 14 November 2008. On that date the three acres of land were valued at £39,000. The market value of the unsold acre of land as at 3 December 2010 was £38,000.

(6) On 14 January 2011 Jorge sold 5,000 £1 ordinary shares in Futuristic Ltd, an unquoted trading company, to his sister for £40,000. The market value of the shares on that date was £64,800. The shares had been purchased on 21 March 2006 for £26,300. Jorge and his sister have elected to hold over the gain as a gift of a business asset.

Required:

Calculate Jorge Jung's taxable gains for the tax year 2010–11.

(15 marks)

4 Leticia Stone owns three properties which are let out. The following information relates to the tax year 2010–11:

Property one

This is a freehold house that qualifies as a trade under the furnished holiday letting rules. Leticia purchased this property on 1 July 2010 for £282,000. The purchase price included £4,600 for furniture and kitchen equipment.

Leticia borrowed £220,000 to purchase this property. During the period 1 July 2010 to 5 April 2011 she made loan repayments totalling £14,300, of which £12,700 was in respect of loan interest.

The property was let for 22 weeks at £425 per week during the period 1 July 2010 to 5 April 2011.

Due to a fire, £12,200 was spent on replacing the roof of the house during March 2011. Only £10,900 of this was paid for by Leticia's property insurance.

During the tax year 2010–11 Leticia drove 1,170 miles in her motor car in respect of the furnished holiday letting business. She uses HM Revenue and Customs' authorised mileage rates to calculate her expense deduction. The mileage was for the following purposes:

	Miles
Purchase of property	160
Running the business on a weekly basis	880
Property repairs	130

The other expenditure on this property for the period 1 July 2010 to 5 April 2011 amounted to £3,770, and this is all allowable.

Property two

This is a leasehold shop that is let out unfurnished. The property was acquired on 1 May 2010 and was immediately let to a tenant, with Leticia receiving a premium of £45,000 for the grant of a five-year lease. During the period 1 May 2010 to 5 April 2011 Leticia received four quarterly rental payments of £2,160 per quarter, payable in advance.

Leticia pays a monthly rent of £1,360 for this property, but did not pay a premium when she acquired it.

Property three

This is a freehold house that is let out unfurnished. The property was let from 6 April 2010 to 31 January 2011 at a monthly rent of £580. On 31 January 2011 the tenant left, owing three months rent. Leticia recovered two months of the outstanding rent by retaining the tenant's security deposit, but was unable to recover the balance.

On 1 March 2011 a new tenant paid Leticia a security deposit of £1,200, being two months rent, although the new tenancy did not commence until 15 April 2011.

During the tax year 2010–11 Leticia paid loan interest of £9,100 in respect of a loan that was taken out to purchase this property.

Other expenditure

The other expenditure on properties two and three for the tax year 2010–11 amounted to £36,240, and this is all allowable.

Furnished room

During the tax year 2010–11 Leticia rented out one furnished room of her main residence. During the year she received rent of £3,170, and incurred allowable expenditure of £4,840 in respect of the room. Leticia always uses the most favourable basis as regards the tax treatment of the furnished room.

Required:

(a) Calculate Leticia Stone's property business loss for the tax year 2010–11.

Note: Your answer should separately identify the furnished holiday letting loss. (13 marks)

(b) Advise Leticia Stone as to the possible ways in which her property business loss for the tax year 2010–11 can be relieved.

Note: You are not expected to discuss relief for losses incurred in the early years of trading or relief against chargeable gains. (2 marks)

(15 marks)

5 **(a)** Black Ltd owns 100% of the ordinary share capital of White Ltd. The results of Black Ltd and White Ltd for the year ended 31 March 2011 are as follows:

	Black Ltd	White Ltd
	£	£
Trading profit/(loss)	396,800	(351,300)
Property business profit	21,100	26,700
Capital loss	–	(17,200)
Gift aid donations	(4,400)	(5,600)

As at 1 April 2010 Black Ltd had unused trading losses of £57,900, and unused capital losses of £12,600, whilst White Ltd had unused trading losses of £21,800.

Required:

Advise Black Ltd as to the maximum amount of group relief that can be claimed from White Ltd in respect of its losses for the year ended 31 March 2011. Clearly identify any losses that cannot be surrendered by White Ltd as part of the group relief claim.

Note: You are not expected to calculate either company's corporation tax liability. (5 marks)

(b) Brown Ltd is a UK resident company with two overseas branches. For the year ended 31 March 2011 the company made a trading profit of £12,000 (excluding the results of its two overseas branches) and paid gift aid donations of £22,000.

The first overseas branch made a trading profit of £160,000 for the year ended 31 March 2011. Overseas corporation tax of £48,000 was paid in respect of this profit.

The second overseas branch made a trading profit of £40,000 for the year ended 31 March 2011. Overseas corporation tax of £6,000 was paid in respect of this profit.

Required:

Calculate Brown Ltd's corporation tax liability for the year ended 31 March 2011 after taking account of double taxation relief.

Note: You should present your answer in columnar format using the headings 'Total', 'UK', 'First branch' and 'Second branch'. (4 marks)

(c) On 15 January 2011 Blu Reddy made a gift of 200,000 £1 ordinary shares in Purple Ltd, an unquoted investment company, to a trust. Blu paid the inheritance tax arising from this gift.

Before the transfer Blu owned 300,000 shares out of Purple Ltd's issued share capital of 500,000 £1 ordinary shares. On 15 January 2011 Purple Ltd's shares were worth £2 each for a holding of 20%, £3 each for a holding of 40%, and £4 each for a holding of 60%.

Blu has not made any previous gifts.

Required:

Calculate the inheritance tax that will be payable as a result of Blu Reddy's gift to the trust, and the additional inheritance tax that would be payable if Blu were to die on 31 May 2015.

Note: You should ignore annual exemptions, and should assume that the nil rate band for the tax year 2010–11 remains unchanged. (6 marks)

(15 marks)

End of Question Paper