

UNIVERSITY OF BOLTON
WESTERN INTERNATIONAL COLLEGE FZE
ACCOUNTANCY
EXAMINATIONS 2018/19
PERSONAL AND BUSINESS TAXATION
MODULE NO: ACC5003

Date: Thursday 17 January 2019

Time: 4.00pm – 7.00pm

INSTRUCTIONS TO CANDIDATES:

There are 5 questions in this examination; answer **ALL three** questions from section A and **ONE** question from section B:

This is a closed book examination.
Tax tables are provided.

You must hand in this exam paper
with your answer booklet.

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Section A answer ALL questions in this section

QUESTION 1

You are the accountant working in a local accounting practice in Bolton, you have just been provided with tax information relating to three new clients, Alex, Gary and Paula.

- a) Alex has a number of houses which he rents out, for the tax year 2018/19 the income from these properties amounted to £48,850. In addition, Alex has some savings in his bank account, he received **NET** bank interest of £416 in relation to these savings.

Required:

Calculate the income tax payable by Alex for 2018/19. **(5 marks)**

- b) Gary is employed as a computer technician with a **GROSS** annual salary of £88,000. His company deducted PAYE amounting to £28,800 for the 2018/19 tax year. Gary is also a member of the company occupational pension scheme and paid 4% of his salary into this scheme with his employer contributing a further 6%. As Gary travels a lot with his job he is provided with a company car that cost his employer £34,800, but has a list price of £37,000. Gary contributed £5,000 towards the cost of the car which has a diesel engine with CO₂ emissions of 123g/km. His employer pays for all the running costs of the car which includes all the diesel fuel, Gary pays a contribution of £100 per month as a small contribution towards the private fuel. Additionally, Gary has an investment in a UK company and his shares have resulted in him receiving a dividend of £1,240 in the 2018/19 tax year.

Required:

Calculate the income tax payable by (or repayable to) Gary for 2018/19. **(15 Marks)**

- c) Paula is employed as a Michelin star chef and has a **GROSS** annual salary of £54,350. Her employer has deducted £10,190 under the PAYE scheme in respect of her salary during 2018/19. As she is a superb chef and employee her employer provided her with an interest free loan of £12,000 to fund a luxury holiday on 6 June 2018, Paula repaid £8,000 of this loan in January 2019 and the balance will be repaid later in 2019. (Assume the official rate of interest is 2.5%)

Required:

Calculate the income tax payable by (or repayable to) Paula for 2018/19. **(10 Marks)**

(Total 30 marks)

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QUESTION 2

Leonardo has his own business (a limited liability company) which manufactures machinery for the fast food industry. The products are of a specialist nature and as these are within the food industry the company must ensure it complies to hygiene and health and safety standards, he employs a number of staff that work in both the factory and the administration offices. Leonardo has produced the following profit and loss account and, he has provided you with additional information that you may feel is relevant.

	£
Gross profit	295,000
Bad debts recovered (previously written off)	400
Commissions received (note 5)	800
Bank interest received	1,000
General expenses (note 1)	(114,000)
Legal and accounting fees (note 3)	(1,200)
Subscriptions and donations (note 4)	(3,000)
Managers remuneration	(40,000)
Staff salaries and wages	(38,000)
Depreciation	(20,000)
Rent and rates	(1,500)
Repairs and renewals (note 2)	(20,000)
Net profit before tax	59,500

Notes:

- 1) General expenses include travelling expenses of staff (£1,000) and entertaining of suppliers (£600).
- 2) Repairs and renewals include redecorating of the existing premises (£600) and renovations to the new premises to correct general wear and tear (£500) (the premises were usable prior to these renovations).
- 3) Legal and accounting charges include debt collection service costs (£200), staff service agreements (£50), Tax consultancy fees for specialist advice (£730) and audit and accountancy charges (£220).
- 4) Subscriptions and donations include a donation to a political party (£700), staff canteen costs (£500).
- 5) The commissions were not incidental to the main trade.
- 6) Capital allowances have been calculated to be £4,000.
- 7) The company has losses brought forwards from previous periods amounting to £5,000.

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Question 2 continued

Required:

Compute the tax adjusted profits for Leonardo's business and the corporation tax payable. Provide brief explanations for any item added back to profits as disallowed expenditure.

(Total 25 Marks)

Question 3

Special machine tools limited is a manufacturing company that designs and builds production equipment for a government space programme. It is based in the Middlebrook area of Bolton and you have been asked to assist them with their year end tax calculations. The area that you have been asked to provide assistance with is in relation to the computation of capital allowances. You have been provided with the following information:

The balance on the main pool brought forward is £10,000.

29 July 2017	New van purchased for £4,000
25 October 2017	New car (CO2 emissions 65g/km) purchased for £6,000
15 February 2018	Plant (originally costing £8,000) was sold for £7,000
1 May 2018	New plant purchased costing £15,000
15 May 2018	New car (CO2 emissions 180g/km) purchased costing £20,000
30 May 2018	New warehouse industrial strength lift purchased costing £8,000

**Question 3 continues over the page
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Question 3 continued

Required:

- a) Calculate the maximum capital allowances that Special machine tools limited is entitled to for the year ended 30 June 2018. **(20 Marks)**
- b) Briefly explain why HMRC disallow depreciation for tax purposes and replace this with capital allowances **(5 Marks)**

(Total 25 marks)

End of question 3

End of section A

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Section B answer ONE question only from this section

Question 4

In 2018/19 Lewis received various income from property he owned. Details of the income and corresponding expenses were:

Rent from letting out a room in her house for £3,000.

Rent from a furnished flat. The flat had been let on a lease which expired on 5 July 2018 at an annual rent of £5,000. The property was re-let from 6 July 2018 on a seven-year lease at an annual rent of £8,000. In addition, the incoming tenant was required to pay a premium of £3,000.

Expenditures in the year ended 5 April 2019 were:

An annual insurance premium of £450 was paid for the flat on 1 May 2018 (£400 was paid on 1 May 2017).

Water rates and council tax £1,200.

Sundry repairs £350.

The rent on both leases was paid in advance on the usual quarter days, 25 March, 24 June, 29 September and 25 December.

Rent from a holiday cottage, which fulfils the requirements to be treated as furnished holiday accommodation. The rent received was £4,200 and the following expenditure was incurred:

Insurance	£500
Water rates and council tax	£900
Sundry repairs and decorating	£400
Cleaning	£240
Accountancy	£100
Advertising	£400
Capital allowances on furniture and fittings adjusted for private use	£500

Lewis stayed in the cottage for the whole of August but it was available for letting the remainder of the year.

Required:

Calculate Lewis's property income for the year 2018/19 assuming any necessary election is made. Calculations may be made to the nearest month.

(Total 20 Marks)

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Question 5

When deciding whether or not a trade is being carried on, HMRC is often guided by the “badges of trade”.

Assess (with examples of the “badges of trade”) the extent to which the “badges of Trade” provide a useful basis from which HMRC may determine trading activities to be being undertaken.

(Total 20 Marks)

END OF QUESTIONS

PAST EXAMINATION PAPER

2018/19 Additional Tax allowances

Capital allowances

Annual Investment Allowance:

£200,000

(Note: Cars do not attract the AIA and separate rules apply for those cars with emissions over 110g/km and below 50g/km)

Special Rate Pool – 8%

General Pool -18%

First Year Allowance for qualifying expenditure – 100%