

UNIVERSITY OF BOLTON

WESTERN INTERNATIONAL COLLEGE FZE

BA (HONS) ACCOUNTANCY

SEMESTER ONE EXAMINATION 2018/19

ADVANCED TAXATION

MODULE NO: ACC6002

Date: Wednesday 16 January 2019

Time: 1.00pm – 4.00pm

INSTRUCTIONS TO CANDIDATES:

There are FIVE questions on this paper.

SECTION A consists of TWO questions, answer ALL questions.

SECTION B consists of THREE questions, answer ONLY TWO questions.

Please refer to Tax tables for rates & allowances.

This is a closed book exam.

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

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SECTION A (Answer ALL Questions)

Question 1

- (a) Sanah made the following disposals in the tax year 2017/18:
- (i) On 9 July 2017 she sold an antique item for £13,000. She had bought it in October 1993 for £8,000.
 - (ii) On 5 September 2017 she sold a painting at an auction. The painting cost £7,500 in November 1994 and the sale proceeds received were £5,800 from which Sanah had to pay £60 auctioneer's fees.
 - (iii) On 16 November 2017 she sold a car, which she had bought in February 1989 for £3,000. By the time she sold it, it had become a collector's item and Sanah managed to obtain proceeds of £9,000, out of which she paid £450 in auctioneer's fees.
 - (iv) On 5 December 2017 she sold part of her interest in a piece of investment land for £30,000. The original land cost £10,000 in August 1992. The market value of the remaining land at the date of sale was £40,000.
 - (v) On 1 March 2018 she sold her principal private residence realising a gain of £50,000. The residence was acquired in 2008 and has been used throughout her period of ownership 20% for business purposes.

Sanah has capital losses brought forward from the tax year 2016/17 of £1,220.

Sanah has taxable income of £24,225 in the tax year 2017/18.

Required:

Calculate Sanah's capital gains tax payable for the tax year 2017/18 and state the due date for payment. (18 marks)

- (b) Martin Smith sold 1,260 shares at £6 each in Iron plc on 15 February 2018.

Question 1 continued over the page

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Question 1 continued

Prior to the sale of shares the following transactions had taken place:

Date	No. of Shares	Cost (£)
21 July 1986	800	960
23 May 1993	1200	1440
16 February 1999	1600	2400
14 May 2009	400	800

In July 2016, the company made a 1 for 20 rights issue at £3.00 per share and Martin took up this offer of these shares.

Assume that no further shares were acquired within the following 30 days.

Required:

Calculate Martin's chargeable gain only. (7 marks)

(c)

Required:

Critically evaluate the conditions which must be satisfied if a taxpayer wants to use Entrepreneur's Relief (ER) and the benefits of using ER. (5 marks)

(Total: 30 marks)

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Question 2

(a) You are provided with the following information relating to Octopus for the quarter ended 31 December 2017:

(1) The VAT exclusive management accounts:

	£	£
Sales		36,500
Sales returns		(1,100)
		<hr/>
		35,400
Purchases (Note 4)	9,600	
Purchases returns	(300)	
	<hr/>	
	9,300	
Impaired debts written off (Note 5)	1,500	
Other expenses (Note 6)	5,400	
	<hr/>	(16,200)
		<hr/>
Profit		19,200
		<hr/>

- (2) The sales and other expenses are all standard rated for VAT.
- (3) The sales and purchases returns are all evidenced by credit notes issued and received.
- (4) The purchases are all standard rated. Included in purchases are goods which were taken out of the business by Octopus for private purposes. The goods cost £480 but would cost £500 (VAT inclusive) to replace.
- (5) The impaired debts were written off in December 2017. Payment for the original standard rated sales was due on 30 September 2017.
- (6) Included in the other expenses figure is £2,000 for the cost of both business and private petrol and £3,000 for repairs for Octopus's car which had CO₂ emissions of 200 g/km. The quarterly car fuel scale charge (VAT inclusive) is £422.
- (7) A sales invoice for £3,000 excluding VAT had been omitted in error from the VAT return for the quarter to 30 September 2017.
- (8) During the quarter ended 31 December 2017 Octopus purchased a car for £15,000, which is used by his sales manager for private and business use and a machine for £20,000. All figures are VAT inclusive.

Question 2 continued over the page

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Question 2 continued

Required:

- (a) Complete the VAT return for the three-month period ended 31 December 2017, showing how much VAT is payable. State when the VAT is payable to HMRC. (20 marks)
- (b) Critically evaluate what the cash accounting scheme for VAT is and the conditions which must be satisfied to use the scheme (6 marks)
- (c) Critically evaluate what “non-deductible input tax” means and give examples (4 marks)

(Total: 30 marks)

END OF SECTION A

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SECTION B: TWO Questions ONLY to be attempted

Question 3

(a) Farhan Khan died on 12 July 2017, leaving an estate valued at £865,000. None of the transfers below made on his death were exempt from IHT. Farhan made the following transfers during his lifetime:

	£
02 June 2009 Gift to relevant property trust (tax paid by Farhan)	105,000
1 May 2010 Gift to daughter	175,000
5 August 2010 Gift to son	245,000
11 November 2011 Gift to relevant property trust (tax paid by trustees)	445,000

Farhan was not married or in a civil partnership and was single at the time of his death.

His entire estate was left to his children.

Farhan's funeral expenses were £3,500.

Required:

Calculate the inheritance tax payable as a result of Farhan's death. (15 marks)

(b) Evaluate the circumstances in which a taxpayer can use Business Property Relief (BPR) and the tax benefit of using BPR. (5 marks)

(Total: 20 marks)

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Question 4

(a) Consortia

The ordinary share capital of Peter Ltd (a trading company) is owned 31% by Quinn Ltd, 34% by Ryan Ltd and 22% by Sam Ltd. The remaining 13% is owned by various individuals, none of whom own more than 1%. All companies are UK resident and prepare accounts to 31 December. The results for the 31 December 2017 are as follows:

	Peter Ltd	Quinn Ltd	Ryan Ltd	Sam Ltd
Trading profit/(loss)	(95,000)	40,000	37,000	10,000
Chargeable gains	-	14,000	-	-
Property Income	11,000	5,000	10,000	3,000

Required:

Compute the maximum possible group consortia relief claims and explain briefly how group relief is different from group consortia relief (12 marks)

- (b) Eric Ltd has taxable total profits of £900,000 for the year ended 31 March 2018 and receives no dividends. Eric Ltd owns 70% of the ordinary shares of Fiona Ltd and 25% of the ordinary shares of Garry Ltd.

Required:

Calculate the corporation tax liability of Eric Ltd for the year to 31 March 2018 and state the dates on which tax is due to be paid (you should assume the company was "large" for corporation tax payment purposes in the prior year) (8 marks)

(Total: 20 marks)

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Question 5

(a) Wood Ltd disposed of the following chargeable assets in the year ended 31 March 2017:

- (i) In February 2018 a vintage car for £245,000 which had been used by the managing director and originally purchased in January 2009 for £189,000.
- (ii) In October 2017 the company sold its office building for £515,000. The building had been acquired in January 1979 for £103,000 and was extended in September 2000 for £55,000. The market value of the building at 31st March 1982 was £128,000.
- (iii) In August 2017 the company sold gilt edged securities for £97,000 which were originally bought in January 2008 for £67,000.

Wood Ltd had capital losses b/f of £2,150 and also capital losses in the current year from other chargeable disposals of £5,000.

Required:

Calculate the chargeable gain or allowable loss on each of the disposals and then the overall chargeable gain or loss which should be included in the total profits for the year ended 31 March 2018. (Ignore Indexation Allowance in your calculation)

(10 marks)

(b) Explain the purpose of Indexation Allowance and how this is beneficial to companies

(3 marks)

(c) Critically evaluate the benefits and drawbacks of trading as a sole trader or Ltd company. Use examples to illustrate your answer.

(7 marks)

(Total: 20 marks)

END OF QUESTIONS

Summary of Tax Data

Income Tax

	2017-18	2016-17
TAX RATES AND BANDS		
Basic rate	20%	20%
Higher rate	40%	40%
Additional rate	45%	45%
Basic rate limit	£33,500 [†]	£32,000
Higher rate limit	£150,000	£150,000
Starting rate for savings	0%	0%
Starting rate limit for savings	£5,000	£5,000
Personal savings allowance (maximum)	£1,000	£1,000
Dividend allowance	£5,000 [‡]	£5,000 [‡]
[†] Basic rate limit applicable to non-savings income of Scottish taxpayers in 2017-18 is £31,500		
[‡] Rates of tax on dividends in both years are 7.5%, 32.5% and 38.1%		
ALLOWANCES		
	£	£
Personal allowance	11,500	11,000
Marriage allowance	1,150	1,100
Blind person's allowance	2,320	2,290
Married couple's allowance		
Born before 6 April 1935	8,445	8,355
Minimum amount	3,260	3,220
Income limit for basic personal allowance	100,000	100,000
Income limit for married couple's allowance	28,000	27,700
CAR AND FUEL BENEFIT		
Not exceeding 50g/km	9%	7%
51g/km to 75g/km	13%	11%
76g/km to 94g/km	17%	15%
95g/km	18%	16%
Each additional 5g/km	+1%	+1%
Maximum charge	37%	37%
Amount used in car fuel benefit calculation	£22,600	£22,200
PENSION SCHEMES		
	£	£
Annual allowance	40,000	40,000
Lifetime allowance	1,000,000	1,000,000

Capital Allowances

Writing Down Allowance (WDA)	
Main pool of plant and machinery	18%
Special rate pool of plant and machinery	8%
Annual Investment Allowance (AIA)	
AIA annual limit from 1 January 2016	£200,000
AIA rate	100%
First Year Allowance (FYA) on qualifying plant and machinery	
Low emission cars	100%
Gas refuelling equipment†	100%
Energy saving or water efficient technology	100%
Zero-emission goods vehicles	100%

† *The Government has proposed that expenditure on charging points for electric vehicles should also be eligible for a 100% FYA.*

National Insurance Contributions

	2017-18	2016-17
CLASS 1		
Lower earnings limit (weekly)	£113	£112
Primary threshold (weekly)	£157	£155
Upper earnings limit (weekly)	£866	£827
Secondary threshold (weekly)	£157	£156
Upper secondary threshold (weekly)	£866	£827
Employee contributions		
Rate on earnings between primary threshold and UEL	12%	12%
Rate on earnings beyond UEL	2%	2%
Employer contributions		
Rate on earnings beyond secondary threshold	13.8%	13.8%
CLASS 1A		
Rate	13.8%	13.8%
CLASS 2		
Weekly contribution	£2.85	£2.80
Small profits threshold	£6,025	£5,965
CLASS 3		
Weekly contribution	£14.25	£14.10
CLASS 4		
Lower profits limit	£8,164 £	8,060
Upper profits limit	£45,000	£43,000
Rate on profits between lower and upper limit	9%	9%
Rate on profits beyond upper limit	2%	2%

Capital Gains Tax

	2017-18	2016-17
Standard rate [†]	10%	10%
Higher rate [†]	20%	20%
Entrepreneurs' relief rate	10%	10%
Entrepreneurs' relief lifetime limit	£10,000,000	£10,000,000
Annual exempt amount	£11,300	£11,100

[†] Taxable gains on the disposal of residential property are taxed at 18% and 28%

Corporation Tax

Financial Year	FY2017	FY2016	FY2015	FY2014
Main rate	19%	20%	20%	21%
Small profits rate	-	-	-	20%
Lower limit	-	-	-	£300,000
Upper limit	-	-	-	£1,500,000
Marginal relief fraction	-	-	-	1/400

Note:

The main rate for FY2018 is 19%.

Inheritance Tax

Date of transfer	Nil rate band	Rate on life-time transfers	Rate on death	Lower rate
6 April 2006 to 5 April 2007	0 - £285,000	20%	40% -	
6 April 2007 to 5 April 2008	0 - £300,000	20%	40% -	
6 April 2008 to 5 April 2009	0 - £312,000	20%	40% -	
6 April 2009 to 5 April 2012	0 - £325,000	20%	40% -	
6 April 2012 to 5 April 2018	0 - £325,000	20%	40%	36%

Note:

The main residence nil rate band for 2017-18 is £100,000.

Value Added Tax

Standard rate [†]	20%	(from 4 January 2011)
Reduced rate	5%	
Registration threshold	£85,000	(from 1 April 2017)
Deregistration threshold	£83,000	(from 1 April 2017)

[†] Standard rate 17.5% prior to 4 January 2011