

UNIVERSITY OF BOLTON

OFF CAMPUS DIVISION

WESTERN INTERNATIONAL COLLEGE

BA(HONS) ACCOUNTANCY

SEMESTER 1 EXAMINATIONS 2021/2022

PERSONAL AND BUSINESS TAX

MODULE NO: ACC5003

Date: Thursday 13th January 2022

Time: 16:00 – 19:00

INSTRUCTIONS TO CANDIDATES:

There are FIVE questions on this paper.

Section A - Answer ALL THREE questions

Section B – Answer ONE question

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

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

Use of calculators is allowed.

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PAST EXAMINATION PAPER

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SECTION A – Answer ALL THREE questions

Question 1

Ryan is self-employed running a music shop. His statement of profit or loss for the year ended 5 April is as follows:

	£	£
Gross profit		347,830
Expenses:		
Depreciation	2,640	
Motor expenses (Note 1)	9,800	
Professional fees (Note 2)	4,680	
Repairs and renewals (Note 3)	670	
Travelling and entertaining (Note 4)	4,630	
Wages and salaries (Note 5)	77,200	
Other expenses (Note 6)	78,780	
	<hr/>	(178,400)
Net profit		<hr/> 169,430 <hr/>

Note 1 – Motor expenses

During the year ended 5 April Ryan drove a total of 20,000 miles, of which 2,500 were driven when he went on holiday to Europe. The balance of the mileage is 20% for private journeys and 80% for business journeys.

Note 2 – Professional fees

The figure for professional fees consists of £1,460 for accountancy, £620 for personal financial planning advice and £2,600 for fees in connection with an unsuccessful application for planning permission to enlarge Ryan's freehold music shop.

Note 3 – Repairs and renewals

The figure for repairs and renewals consists of £270 for a replacement hard drive for the shop's computer, and £400 for a new printer for this computer.

Note 4 – Travelling and entertaining

The figure for travelling and entertaining consists of £4,150 for Ryan's business travelling expenses and £480 for entertaining suppliers.

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Question 1 continued....

Note 5 – Wages and salaries

The figure for wages and salaries includes a salary of £16,000 paid to Ryan's wife. She works in the music shop as a sales assistant. The other sales assistants doing the same job are paid a salary of £12,000 per annum.

Note 6 – Other expenses

The figure for other expenses includes £75 in respect of a present to an employee for trade purposes, £770 for Ryan's health club subscription and £180 for a trade subscription to the Guild of Musical Instrument Retailers.

Note 7 – Private telephone

Ryan uses his private telephone to make business telephone calls. The total cost of the private telephone for the year ended 5 April was £680, and 25% of this related to business telephone calls. The cost of the private telephone is not included in the statement of profit or loss expenses of £178,400.

Note 8 – Goods for own use

During the year ended 5 April, Ryan took goods out of the music shop for his personal use without paying for them, and no entry has been made in the accounts to record this. The goods cost £600, and had a selling price of £950.

Required:

Calculate Ryan's tax adjusted trading profit for the year ended 5 April.

Your computation should commence with the net profit figure of £169,430 and should list all the items referred to in Notes (1) to (8), indicating by the use of zero (0) any items that do not require adjustment.

You should also briefly explain the reasons behind the adjustments you have made PLUS any items you have decided are not required for adjustment in your computation.

(30 marks)

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Question 2

Kindy Ltd commenced trading on 1 July 2021, preparing its first accounts for the six-month period ended 31 December 2021.

The following information is available:

Trading profit

The tax adjusted trading profit is £542,273. This figure is before making any tax adjustments required for:

- (1) Capital allowances
- (2) The premium paid in respect of the leasehold property
- (3) Advertising expenditure of £4,600. This expenditure was incurred during June 2021 and was deducted in arriving at the accounting profit for the period ended 31 December 2021.

Plant and machinery

The following purchases and disposals of plant and machinery took place in respect of the six-month period ended 31 December 2021.

		Cost/(Proceeds) £
10 May 2021	Purchased equipment	8,900
12 July 2021	Purchased machinery	94,400
29 September 2021	Purchased new motor car (1) (CO ₂ emissions of 70 g/km)	11,600
18 October 2021	Purchased motor car (2) (CO ₂ emissions of 151 g/km)	14,800
7 November 2021	Purchased equipment	7,700
28 December 2021	Sold motor car (2)	(11,300)
28 December 2021	Purchased motor car (3) (CO ₂ emissions of 129 g/km)	18,500

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Question 2 continued....

Leasehold property

On 1 July 2021, Kindy Ltd acquired a leasehold office building, paying a premium of £80,000 for the grant of a twenty-year lease. The office building was used for business purposes by Kindy Ltd throughout the six-month period ended 31 December 2021.

Loan interest received

Loan interest of £1,652 was received on 31 December 2021. The loan was made for non-trading purposes.

Dividends received

During the period ended 31 December 2021 Kindy Ltd received dividends of £21,600 from Dranpipe plc, a UK company. This figure was the actual cash amount received.

Required:

- a) **Prepare a capital allowance computation and calculate Kindy Ltd.'s corporation tax liability for the six-month period ended 31 December 2021.**

(20 Marks)

- b) **Briefly explain why HMRC disallow depreciation for tax purposes and replace it with capital allowances.**

(5 Marks)

Total 25 Marks

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Question 3**Part (a)**

Rudy's income for the tax year 2021/22 comprises the following:

	£
State retirement pension	6,426
Pension from former employer	17,255
Building society interest	4,185
National lottery winnings	10,000

Required:

Calculate Rudy's income tax liability for the tax year 2021/22.

(5 marks)

Part (b)

Congola's income and expenditure for the tax year 2021/22 comprises the following:

	£
Salary	8,426
Dividends	88,889
NS&I Investment account interest	9,205
Charitable donation under the gift aid scheme	2,000

Required:

Calculate Congola's income tax liability for the tax year 2021/22.

(5 marks)

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Question 3 continued....

Part (c)

Anita, who is employed as a fashion designer for Taring Designs Limited, was relocated from London to Manchester on 6 April 2021. Her annual salary is £50,910.

Anita received the following in the tax year 2021/22:

- (1) She was immediately provided with a house with an annual value of £4,100 for which her employer paid an annual rent of £3,500. The house had a market value of £180,000 on 6 April 2021. Anita was reimbursed relevant relocation expenditure of £12,000.

Taring Designs Limited also incurred the following expenses in connection with the house in the tax year 2021/22 as follows:

	£
Electricity	1,400
Gas	1,500
Water	1,000
Council tax	3,300
	7,200
	7,200

The house had been furnished by Taring Designs Limited immediately prior to Anita's occupation at a cost of £30,000.

- (2) On 6 April 2021 Anita was provided with a laptop computer, which cost £1,500 and a smart phone, which cost £300. Both were provided for her personal use.
- (3) Taring Designs Limited had made a loan to Anita in 2021 of £12,000 at a rate of interest of 2% per year (Assuming the official rate of interest was 2.25% at that time). The loan is not being used for a 'qualifying purpose'. No part of the loan has been repaid.
- (4) Anita was provided with a company car. It had a list price of £18,500 when new in August 2013 and has a carbon dioxide emission rating of 162 g/km. Taring Designs Limited paid for the petrol for all the mileage travelled by Anita until 5 December 2021.

Question 3 continues over the page...

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Question 3 continued....

On 5 December 2021, the company discontinued the company car scheme and sold the car to Anita for £5,000, its market value at that date. Her mileage from 6 April 2021 to 5 December 2021 was 20,000 of which 13,000 was on business.

- (5) From 6 December 2021 Anita travelled 11,000 miles for business purposes, in the car that she had purchased from the company. The company reimbursed her 45p for each business mile.
- (6) During the tax year 2021/22 Anita was provided with childcare vouchers, of £40 per week for 46 weeks. They were used to purchase approved childcare for her daughter.

Anita has no other income.

Required:

Calculate Anita's employment income for the tax year 2021/22.

(15 marks)

Total 25 Marks

END OF SECTION A

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SECTION B – Answer ONE question

Question 4

Simon Butler is a computer programmer who started working for Int Designs Ltd on 6 April 2021.

The following information is available in respect of the tax year :

- (1) Simon received income of £60,000 from Int Designs Ltd. He is paid a fixed fee for each contract that he works on, and each contract lasts an average of two weeks.

Simon is under no obligation to accept any of the contracts offered, and carries out the work under his own control. He is, however, obliged to do the work personally.

- (2) Simon works from home, and never visits the premises of Int Designs Ltd. He uses one room of his five-room private residence exclusively for business purposes. The total running costs of the house for the year were £4,000.
- (3) Simon's telephone bills are £500 per quarter. This is £400 per quarter higher than they were prior to the commencement of his working from home.
- (4) Simon is required to provide all of his own equipment. He purchased a computer on 6 April 2021 for £2,800.
- (5) Simon had no other sources of income in the tax year 2021/22.

Required:

- (a) **List the factors that indicate that Simon should be treated as self-employed rather than as an employee in relation to his work for Int Designs Ltd. You should confine your answer to the information given in the question.**

(8 marks)

- (b) **HMRC is often guided by the 'badges of trade' when determining whether or not a trade is being carried on.**

Assess using examples the extent to which the 'badges of trade' provide a useful basis from which HMRC may determine trading activities to be undertaken.

(12 Marks)

Total 20 Marks

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Question 5

Part (a)

Sandy began trading on 1 June 2017 and will cease trading on 31 July 2022 due to moving abroad. He prepares accounts to 30 September annually, with results as follows:

Period/Year to	Trading profits £
30 September 2018	34,500
30 September 2019	22,300
30 September 2020	16,400
30 September 2021	17,200
31 July 2022	14,350

Required:

Compute Sandy's trading profits for each tax year and clearly state any overlap profit.

All workings need to be shown clearly stating the dates each period covers.

(12 Marks)

Part (b)

Evaluate Stamp Duty Land Tax (SDLT) and briefly explain the environmental tax relief for business.

(8 Marks)

Total 20 Marks

END OF SECTION B

Summary of tax data over the page....

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Summary of Tax Data

Income Tax

	2021-22	2020-21
TAX RATES AND BANDS[†]		
Basic rate	20%	20%
Higher rate	40%	40%
Additional rate	45%	45%
Basic rate limit [‡]	£37,700	£37,500
Higher rate limit	£150,000	£150,000
[†] Different tax rates and bands apply to the non-savings income of Scottish taxpayers (see below)		
[‡] Basic rate limit frozen at £37,700 until the end of tax year 2025-26		
Starting rate for savings	0%	0%
Starting rate limit for savings	£5,000	£5,000
Personal savings allowance (basic rate taxpayer)	£1,000	£1,000
Personal savings allowance (higher rate taxpayer)	£500	£500
Dividend ordinary rate	7.5%	7.5%
Dividend upper rate	32.5%	32.5%
Dividend additional rate	38.1%	38.1%
Dividend allowance	£2,000	£2,000
SCOTTISH TAX RATES AND BANDS[†]		
Starter rate	19%	19%
Basic rate	20%	20%
Intermediate rate	21%	21%
Higher rate	41%	41%
Top rate	46%	46%
Starter rate limit	£2,097	£2,085
Basic rate limit	£12,726	£12,658
Intermediate rate limit	£31,092	£30,930
Higher rate limit	£150,000	£150,000
[†] These tax rates and bands apply only to the non-savings income of Scottish taxpayers		

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Summary of Tax Data

PERSONAL ALLOWANCES

	2021-22	2020-21
Personal allowance†	£12,570	£12,500
Marriage allowance	£1,260	£1,250
Blind person's allowance	£2,520	£2,500
Married couple's allowance:		
Born before 6 April 1935	£9,125	£9,075
Minimum amount	£3,530	£3,510
Income limit for basic personal allowance	£100,000	£100,000
Income limit for married couple's allowance	£30,400	£30,200

† Personal allowance frozen at £12,570 until the end of tax year 2025-26

CAR AND FUEL BENEFIT

Zero emissions	1%	0%
*1-50 g/km (depending upon electric range)	2%-14%	2%-14%
*51g/km to 54g/km	15%	15%
*55g/km to 59g/km	16%	16%
*60g/km to 64g/km	17%	17%
*65g/km to 69g/km	18%	18%
*70g/km to 74g/km	19%	19%
*75g/km	20%	20%
Each additional 5g/km	+1%	+1%
Maximum charge	37%	37%
Amount used in car fuel benefit calculation	£24,600	£24,500

* These percentages are 1% lower in 2021-22 and 2% lower in 2020-21 if the car was registered on or after 6 April 2020

CAPITAL ALLOWANCES

Writing Down Allowance (WDA)		
Main pool of plant and machinery	18%	18%
Special rate pool of plant and machinery	6%	6%
Annual Investment Allowance (AIA)	100%	100%
AIA annual limit from 1 January 2016†	£200,000	£200,000
First Year Allowances (FYAs)	100%	100%
Structures and Buildings Allowances (SBAs)	3%	3%

† AIA annual limit temporarily raised to £1m between 1 January 2019 and 31 December 2021

PENSION SCHEMES

Annual allowance	£40,000	£40,000
Lifetime allowance†	£1,073,100	£1,073,100

† Lifetime allowance frozen at £1,073,100 until the end of tax year 2025-26

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Summary of Tax Data

National Insurance Contributions

	2021-22	2020-21
CLASS 1		
Lower earnings limit (weekly)	£120	£120
Primary threshold (weekly)	£184	£183
Upper earnings limit (weekly)	£967	£962
Secondary threshold (weekly)	£170	£169
Upper secondary threshold (weekly)	£967	£962
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%
Employment allowance	£4,000	£4,000
CLASS 1A		
Rate	13.8%	13.8%
CLASS 2		
Weekly contribution	£3.05	£3.05
Small profits threshold	£6,515	£6,475
CLASS 3		
Weekly contribution	£15.40	£15.30
CLASS 4		
Lower profits limit	£9,568	£9,500
Upper profits limit	£50,270	£50,000
Rate on profits between lower and upper limit	9%	9%
Rate on profits beyond upper limit	2%	2%

Capital Gains Tax

	2021-22	2020-21
Standard rate [†]	10%	10%
Higher rate [†]	20%	20%
Business asset disposal relief rate	10%	10%
Business asset disposal relief lifetime limit	£1,000,000	£1,000,000
Annual exempt amount [‡]	£12,300	£12,300

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

[‡] Annual exempt amount frozen at £12,300 until the end of tax year 2025-26

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Corporation Tax

Financial Year	FY2021	FY2020	FY2019	FY2018	FY2017
Main rate ^{†‡}	19%	19%	19%	19%	19%
Patent box (effective rate)	10%	10%	10%	10%	10%
R&D SMEs payable credit	14.5%	14.5%	14.5%	14.5%	14.5%
R&D expenditure credit	13%	13%	12%	12%	11%

[†] The main rate for FY2022 will be 19%

[‡] The main rate for FY2023 will be 25%. However, a "small profits rate" of 19% will apply to companies with profits not exceeding £50,000. Companies with profits between £50,000 and £250,000 will be subject to the main rate, but reduced by a marginal relief.

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 2022	0 - £325,000	20%	40%	36%

[†] Residence nil rate band for 2021-22 is £175,000

[‡] Nil rate band and residence nil rate band both frozen until the end of tax year 2025-26

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)

[†] A temporary reduced rate of 5% applies to the hospitality and tourism sector between 15 July 2020 and 30 September 2021. This rate rises to 12.5% between 1 October 2021 and 31 March 2022 and then reverts to the standard rate of 20% as from 1 April 2022.

[‡] Thresholds frozen until April 2024

END OF PAPER