

UNIVERSITY OF BOLTON

INSTITUTE OF MANAGEMENT

MSC ACCOUNTANCY & FINANCIAL MANAGEMENT

SEMESTER TWO EXAMINATION 2021/22

ADVANCED TAXATION

MODULE NO: ACC7506

Date: Wednesday 18 May 2022

Time: 10.00 – 1.00pm

INSTRUCTIONS TO CANDIDATES:

There are 3 questions on this paper.

Answer all 3 questions

This is a closed book exam.

Tax tables and time limits and elections included

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

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 Institute of Management
 MSc Accountancy & Financial Management
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Question 1

You work as a Senior Corporate Tax Manager in Ahmed & Co Chartered Accountants and Tax Advisors. You advise clients on all matters relating to corporate taxation.

The following information relates to parts (a):

Irene Ltd has the following results for the periods up to 31.08.23.

	y/e 31.12.21	p/e 8m 31.08.22	y/e 31.08.23
Trading profit/(loss)	340,000	156,000	(352,200)
Property income	20,000	22,000	24,000
Interest income	5,000	7,200	8,200
Qualifying charitable donation	6,000	6,000	6,000

Required:

- (a) Calculate the taxable total profits for all three periods, assuming that as much of the loss as possible is relieved as soon as possible.

State the amount of unrelieved loss at 1 September 2023. **(10 marks)**

The following information relates to part (b):

One of your clients Khan Enterprises Ltd would like advice in relation to expenditure on R&D for SMEs as the company is considering investing heavily in R&D to develop new cutting edge products to help grow the business in the UK. In future due to rapid growth the company may become large for R&D purposes.

Required:

- (b) Critically evaluate the expenditure which would qualify for R&D relief and the operation of the R&D relief for SMEs in comparison to large companies

(10 marks)

The following information relates to parts (c) and (d):

Another client Peter Solutions Ltd would like some specialist advice in relation to the Substantial Shareholding Exemption (SSE) and Rollover Relief (ROR) for companies as they unsure about the rules of these reliefs.

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Question 1 continued

Required:

- (c) Critically evaluate the conditions of SSE together with operation of the relief
(7 marks)
- (d) Critically evaluate the conditions for ROR together with operation of the relief
(7 marks)

The following information is relevant to part (e)

David Ltd is a UK resident company which has received a loan from its foreign parent company called Fred Inc.

The loan is for £20 million at an interest rate of 6%. A third party bank would normally be willing to lend David Ltd £13 million at a rate of 3%.

Required:

- (e) Calculate the amount of adjustment required in the computation as a result of this intra-group loan arrangement and critically evaluate the rules in relation to intra-group loan finance
(6 marks)

Total: 40 marks

Question 2

The following information is relevant to part (a):

You work for Bridge & Co Tax Advisors which is an award winning firm based in the UK and has a range of personal tax clients including Ozkan (an individual).

Ozkan made the following disposals in the tax year 2021/22:

- (1) On 28 May 2021 she sold an antique dining table for £25,000. She bought the table in October 2007 for £17,500.
- (2) On 23 August 2021 she sold her car for £17,400. She bought the car for £36,000 in April 2014.

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Question 2 continued

(3) On 22 December 2021 she sold a commercial property, held as an investment for £970,000. She bought the property for £312,000 in January 2013. Legal costs, estate agent fees and stamp duty land tax totalled £5,400 at the time of purchase and £8,150 on the sale of the property.

(4) On 3 January 2022 she sold a business asset for £74,000. She purchased the asset for £8,000 in September 2017.

The asset had been used for the purposes of her self-employed business for the whole period of ownership. The disposal was not part of a disposal of the whole of the business.

Ozkan has capital losses brought forward at 6 April 2021 of £5,300.

She has taxable income for the tax year 2021/22 of £160,000.

Required:

Calculate Ozkan's after tax sales proceeds realised from the above disposals.

(10 marks)

The following information is relevant to part (b):

You have been approached by one of your clients who would like advice in relation to a CGT relief, namely Business Asset Disposal Relief (BADR). Your client has been informed that this relief will enable him to save CGT but he is unsure if he will be able to claim the relief and the manner in which the relief operates

Required:

(b) Critically evaluate the conditions which must be satisfied to use BADR and also the manner in which the relief operates

(10 marks)

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Question 2 continued

The following information is relevant to part (c):

You have been approached by Emily who is one of your clients and she would like advice in relation to her selling her main home which is her private residence. She has been told that there is a private residence relief available for CGT purposes, however she is unsure about some of the conditions.

Required:

(c) Critically evaluate the meaning of “deemed occupation” and also the availability of letting relief on disposal of an individual’s main home.

(10 marks)

Total: 30 marks

Question 3

The following information is relevant to part (a):

You are a Senior Tax Manager working for Garry & Co Tax advisors which is a national Accountancy and Tax practice in the UK and have been requested to offer inheritance tax advice to one of your existing clients Barry whose father Ray recently passed away. Ray died on 3 April 2022, and his estate comprised of the following:

- Freehold house and land which was valued at £400,000. The property was owned by Ray and his wife as joint tenants. His wife is still alive.
- A property situated in Liverpool valued at £250,000. This property had been Ray’s main residence where he lived with his wife.
- Ordinary shares in Asam Ltd, an unquoted trading (UK) company, worth £10,000. The shares have been owned for seven years. 15% of the company’s net assets are investments.
- Land worth £87,500 which was agricultural land that Ray has owned for many years since 1990 and was used for farming purposes. The land is likely to remain being used as agricultural farming land in future also.
- UK Bank deposit account £25,000 and UK accrued interest £2,000 (net).
- Personal chattels £10,000 in the UK.

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• **Question 3 continued**

- Death in service £200,000. The death in service policy is expressed to be for the benefit of the spouse. Ray was employed in the UK.
- Debts and funeral expenses amounted to £1,250. The funeral took place in the UK.
- In his will Ray has specifically mentioned that he is leaving his personal chattels to his wife and residue of the estate to his son Brian.
- Ray had made one lifetime gift of £62,500 cash to his daughter in July 2003.

Required:

- (a) Calculate the inheritance tax payable (if any) on the estate, together with brief notes to your calculation.

(15 marks)

The following information is relevant to parts (b) and (c):

Another client of yours has mentioned that there are certain Inheritance Tax reliefs available and they want to know more about Agricultural Property Relief (APR) and Business Property relief (BPR) which could potentially reduce the Inheritance Tax payable.

Required:

- (b) Critically evaluate the conditions of Agricultural Property Relief (APR) and the operation of the relief. **(5 marks)**

- (c) Critically evaluate the conditions of Business Property Relief (BPR) and the operation of the relief. **(10 marks)**

Total: 30 marks

END OF QUESTIONS

END OF EXAMINATION

TIME LIMITS AND ELECTION DATES

Income tax

Election/claim	Time limit	For 2021/22
Agree the amount of trading losses to carry forward	4 years from the end of the tax year in which the loss arose	5 April 2026
Current and prior year set-off of trading losses against total income (and chargeable gains)	12 months from 31 January following the end of the tax year in which the loss arose	31 January 2024
Three year carry back of trading losses in the opening years	12 months from 31 January following the end of the tax year in which the loss arose	31 January 2024
Three year carry back of terminal trading losses in the closing years	4 years from the end of the last tax year of trading	5 April 2026
Set-off of loss on the disposal of unquoted trading company shares against income	12 months from 31 January following the end of the tax year in which the loss arose	31 January 2024
Transfer of assets eligible for capital allowances between connected parties at TWDV	2 years from the date of sale	

National Insurance Contributions

Election/claim	Time limit	For 2021/22
Class 1 primary and secondary – pay days	17 days after the end of each tax month under PAYE system (14 days if not paid electronically)	22nd of each month
Class 1 A NIC – pay day	22 July following end of tax year (19 July if not paid electronically)	22 July 2022
Class 2 NICs – pay days	Paid under self-assessment with balancing payment	31 January 2023
Class 4 NICs – pay days	Paid under self-assessment with income tax	

Capital gains tax

Election/claim	Time limit	For 2021/22
Replacement of business asset relief for individuals (Rollover relief)	4 years from the end of the tax year: – in which the disposal occurred or – the replacement asset was acquired whichever is later	5 April 2026 for 2021/22 sale or acquisition (if later event)
Holdover relief of gain on the gift of a business asset (Gift holdover relief)	4 years from the end of the tax year in which the disposal occurred	5 April 2026
Disapplication of incorporation relief	2 years from the 31 January following the end of the tax year in which the business is transferred If sell all shares by 5 April following tax year of incorporation: Time limit 12 months earlier than normal claim date	31 January 2025 31 January 2024
EIS reinvestment relief	5 years from 31 January following the end of the tax year in which the disposal occurred	31 January 2028
Business assets disposal relief and investors' relief	12 months from 31 January following the end of the tax year in which the disposal occurred	31 January 2024
Determination of private residence	2 years from the acquisition of the second property	

Self-assessment – individuals

Election/claim	Time limit	For 2021/22
Pay days for income tax and class 4 NIC	1st instalment: 31 January in the tax year 2nd instalment: 31 July following the end of tax year Balancing payment: 31 January following the end of tax year	31 January 2022 31 July 2022 31 January 2023
Pay day for CGT (not UK residential property) and class 2 NIC	31 January following the end of tax year	31 January 2023
Pay day for CGT on UK residential property disposals	Within 30 days of the disposal	

Self-assessment – individuals

Election/claim	Time limit	For 2021/22
Filing dates If notice to file issued by 31 October following end of tax year If notice to file issued after 31 October following end of tax year	Paper return: 31 October following end of tax year Electronic return: 31 January following end of tax year 3 months from the date of issue of the notice to file	31 October 2022 31 January 2023
Retention of records Business records Personal records	5 years from 31 January following end of the tax year 12 months from 31 January following end of the tax year	31 January 2028 31 January 2024
HMRC right of repair	9 months from date the return was filed	
Taxpayers right to amend a return	12 months from 31 January following end of the tax year	31 January 2024
Error or mistake claim	4 years from the end of the tax year	5 April 2026
HMRC can open an enquiry	12 months from submission of the return	
HMRC can raise a discovery assessment – No careless or deliberate behaviour – Tax lost due to careless behaviour – Tax lost due to deliberate behaviour	4 years from the end of the tax year 6 years from the end of the tax year 20 years from the end of the tax year	5 April 2026 5 April 2028 5 April 2042
Taxpayers right of appeal against an assessment	30 days from the assessment – appeal in writing	

Inheritance tax

Election/claim	Time limit	For 2021/22
Lifetime IHT on CLTs – pay day	Gift before 1 October in tax year: Following 30 April Gift on/after 1 October in tax year: 6 months after the end of the month of the gift	30 April 2022
Death IHT : on lifetime gifts within seven years of death (CLTs and PETs) and on the estate value	6 months after the end of the month of death	
Deed of variation	2 years from the date of death – in writing	
Transfer of unused nil rate band to spouse or civil partner	2 years from the date of the second death	

Corporation tax

Election/claim	Time limit
Replacement of business asset relief for companies (Rollover relief)	4 years from the end of the accounting period: – in which the disposal occurred or – the replacement asset was acquired whichever is later
Set-off of brought forward losses against total profits (income and gains)	2 years from the end of the accounting period in which the loss is relieved
Current year set-off of trading losses against total profits (income and gains), and 12 month carry back of trading losses against total profits (income and gains)	2 years from the end of the accounting period in which the loss arose
Surrender of current period and brought forward losses to other group companies (group relief and consortium relief)	2 years after the claimant company's accounting period
Election for transfer of capital gain or loss to another company within the gains group	2 years from the end of the accounting period in which the disposal occurred by the company actually making the disposal

Self-assessment – companies

Election/claim	Time limit
Pay day for small and medium companies	9 months and one day after the end of the accounting period
Pay day for large companies	Instalments due on 14th day of: <ul style="list-style-type: none"> – Seventh, Tenth, Thirteenth, and Sixteenth month after the start of the accounting period
Filing dates	Later of: <ul style="list-style-type: none"> – 12 months from the end of the accounting period – 3 months from the issue of a notice to deliver a corporation tax return
Companies error or mistake claim	4 years from the end of the accounting period
HMRC can open an enquiry	12 months from the actual submission of the return
Retention of records	6 years from the end of the accounting period

Value added tax

Election/claim	Time limit
Compulsory registration Historic test: <ul style="list-style-type: none"> – Notify HMRC – Charge VAT Future test: <ul style="list-style-type: none"> – Notify HMRC – Charge VAT 	<p>30 days from end of the month in which the threshold was exceeded</p> <p>Beginning of the month, one month after the month in which the threshold was exceeded</p> <p>30 days from the date it is anticipated that the threshold will be exceeded</p> <p>the date it is anticipated that the threshold will be exceeded (i.e. the beginning of the 30 day period)</p>
Compulsory deregistration	30 days from cessation
Filing of VAT return and payment of VAT	End of month following the return period

TAX RATES AND ALLOWANCES

Throughout this exam kit:

- 1 You should assume that the tax rates and allowances for the tax year 2021/22 and for the financial year to 31 March 2022 will continue to apply for the foreseeable future unless you are instructed otherwise.
- 2 Calculations and workings need only to be made to the nearest £.
- 3 All apportionments should be made to the nearest month.
- 4 All workings should be shown.

Income tax		Normal rates	Dividend rates
Basic rate	£1 – £37,700	20%	7.5%
Higher rate	£37,701 – £150,000	40%	32.5%
Additional rate	£150,001 and above	45%	38.1%
Savings income nil rate band	– Basic rate taxpayers		£1,000
	– Higher rate taxpayers		£500
Dividend nil rate band			£2,000

A starting rate of 0% applies to savings income where it falls within the first £5,000 of taxable income.

Personal allowance

Personal allowance	£12,570
Transferable amount	£1,260
Income limit	£100,000

Where adjusted net income is £125,140 or more, the personal allowance is reduced to zero.

Residence status

Days in UK	Previously resident	Not previously resident
Less than 16	Automatically not resident	Automatically not resident
16 to 45	Resident if 4 UK ties (or more)	Automatically not resident
46 to 90	Resident if 3 UK ties (or more)	Resident if 4 UK ties
91 to 120	Resident if 2 UK ties (or more)	Resident if 3 UK ties (or more)
121 to 182	Resident if 1 UK tie (or more)	Resident if 2 UK ties (or more)
183 or more	Automatically resident	Automatically resident

Remittance basis charge

UK resident for:	Charge
Seven out of the last nine years	£30,000
12 out of the last 14 years	£60,000

Car benefit percentage

The relevant base level of CO₂ emissions is 55 grams per kilometre.

The percentage rates applying to petrol-powered motor cars (and diesel-powered motor cars meeting the RDE2 standard) with CO₂ emissions up to this level are:

51 grams to 54 grams per kilometre	14%
55 grams per kilometre	15%

The percentage for electric-powered motor cars with zero CO₂ emissions is 1%.

For hybrid-electric motor cars with CO₂ emissions between 1 and 50 grams per kilometre, the electric range of a motor car is relevant:

Electric range

130 miles or more	1%
70 to 129 miles	4%
40 to 69 miles	7%
30 to 39 miles	11%
Less than 30 miles	13%

Car fuel benefit

The base figure for calculating the car fuel benefit is £24,600.

Company van benefits

The company van benefit scale charge is £3,500, and the van fuel benefit is £669.

Vans producing zero emissions have a 0% benefit.

Individual savings accounts (ISAs)

The overall investment limit is £20,000.

Property income

Basic rate restriction applies to 100% of finance costs relating to residential properties.

Pension scheme limits

Annual allowance	£40,000
Minimum allowance	£4,000
Threshold income limit	£200,000
Income limit	£240,000
Lifetime allowance	£1,073,100

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

Approved mileage allowances: cars

Up to 10,000 miles	45p
Over 10,000 miles	25p

Capital allowances: rates of allowance**Plant and machinery**

Main pool	18%
Special rate pool	6%

Motor cars

New cars with zero CO ₂ emissions	100%
CO ₂ emissions between 1 and 50 grams per kilometre	18%
CO ₂ emissions over 50 grams per kilometre	6%

Annual investment allowance

Rate of allowance	100%
Expenditure limit	£1,000,000

Enhanced capital allowances for companies

Main pool super deduction	130%
Special rate pool first year allowance	50%

Structures and buildings allowance

Straight-line allowance	3%
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Cash basis accounting

Revenue limit	£150,000
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Cap on income tax reliefs

Unless otherwise restricted, reliefs are capped at the higher of £50,000 or 25% of income.

Corporation tax

Rate of tax – Financial year 2021	19%
– Financial year 2020	19%
– Financial year 2019	19%
Profit threshold	£1,500,000

Value added tax (VAT)

Standard rate	20%
Registration limit	£85,000
Deregistration limit	£83,000

Inheritance tax: nil rate bands and tax rates

Nil rate band		£325,000
Residence nil rate band		£175,000
Rate of tax on excess	– Lifetime rate	20%
	– Death rate	40%

Inheritance tax: Taper relief

Years before death	Percentage reduction
More than 3 but less than 4 years	20%
More than 4 but less than 5 years	40%
More than 5 but less than 6 years	60%
More than 6 but less than 7 years	80%

Capital gains tax: tax rates

	Normal rates	Residential property
Lower rate	10%	18%
Higher rate	20%	28%
Annual exempt amount		£12,300

Capital gains tax: business asset disposal relief and investors' relief

Lifetime limit – business asset disposal relief	£1,000,000
– investors' relief	£10,000,000
Rate of tax	10%

National insurance contributions

Class 1 Employee	£1 – £9,568 per year	Nil
	£9,569 – £50,270 per year	12%
	£50,271 and above per year	2%
Class 1 Employer	£1 – £8,840 per year	Nil
	£8,841 and above per year	13.8%
	Employment allowance	£4,000
Class 1A		13.8%
Class 2	£3.05 per week	
	Small profits threshold	£6,515
Class 4	£1 – £9,568 per year	Nil
	£9,569 – £50,270 per year	9%
	£50,271 and above per year	2%

Rates of interest (assumed)

Official rate of interest	2.00%
Rate of interest on underpaid tax	2.60%
Rate of interest on overpaid tax	0.50%

Standard penalties for errors

Taxpayer behaviour	Maximum penalty	Minimum penalty – unprompted disclosure	Minimum penalty – prompted disclosure
Deliberate and concealed	100%	30%	50%
Deliberate but not concealed	70%	20%	35%
Careless	30%	0%	15%

Stamp duty land tax on non-residential properties

Up to £150,000	0%
£150,001 – £250,000	2%
£250,001 and above	5%

Stamp duty

Shares	0.5%
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