

UNIVERSITY OF BOLTON

OFF CAMPUS DIVISION

WESTERN INTERNATIONAL COLLEGE

BA(HONS) ACCOUNTANCY

SEMESTER ONE EXAMINATIONS 2022/2023

ADVANCED TAXATION

MODULE NO: ACC6002

Date: Tuesday 10th January 2023

Time: 1:00 – 4:00

INSTRUCTIONS TO CANDIDATES:

There are **FIVE** questions on this paper.

Section A - Answer **BOTH** questions

Section B consists of **THREE** questions. Answer **ONLY TWO** questions.

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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SECTION A – Answer ALL questions in this section

Question 1- Answer all parts (a), (b) and (c)

Part (a)

Anne and Clency Grenade are a married couple. They disposed of the following assets during the tax year 2021/22:

Jointly owned property

On 30 September 2021, Clency and Anne sold a house for £381,900. The house had been purchased on 1 October 2001 for £86,000.

Clency and Anne occupied the house as their main residence from the date of purchase until 31 March 2005. The house was then unoccupied between 1 April 2005 and 31 December 2008 due to Anne being required by her employer to work elsewhere in the United Kingdom.

From 1 January 2009 until 31 December 2015 Clency and Anne again occupied the house as their main residence. The house was then unoccupied until it was sold on 30 September 2021.

Throughout the period 1 October 2001 to 30 September 2021 Clency and Anne did not have any other main residence.

Clency Grenade

On 5 May 2021, Clency transferred his entire shareholding of 20,000 £1 ordinary shares in Bond Ltd, an unquoted trading company, to Anne. On that date the shares were valued at £64,000. Clency's shareholding had been purchased on 21 June 2018 for £48,000.

Anne Grenade

On 7 July 2021 Anne sold 15,000 of the 20,000 £1 ordinary shares in Bond Ltd that had been transferred to her from Clency. The sale proceeds were £62,400.

Neither Clency nor Anne has ever worked for Bond Ltd.

On 15 October 2021 Anne disposed of a small business she had been running part time for many years. The only chargeable asset in the business was a warehouse and this resulted in a gain of £3,700.

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Section A Question 1 continued....

Anne has taxable income of £27,145 for the tax year 2021/22. Clency does not have any taxable income.

Required:

Compute Clency and Anne's respective total capital gains tax liabilities for the tax year 2021/22. You should also state the date of payment of capital gains tax and account for any reliefs wherever possible.

(10 marks)

Part (b)

John made the following gifts to family members during the tax year 2021/22:

1. On 28 May 2021, John made a gift of a house valued at £187,000 to his wife. John's uncle had originally purchased the house on 14 July 2000 for £45,900. The uncle died on 12 June 2009, and the house was inherited by John. On that date, the house was valued at £112,800. John has never occupied the house as his main residence.
2. On 24 June 2021, John made a gift of his entire 12% holding of 12,000 £1 ordinary shares in Real Ltd, an unquoted trading company, to his son. The market value of the shares on that date was £98,400. The shares had been purchased on 15 March 2011 for £39,000. On 24 June 2021, the market value of Real Ltd.'s chargeable assets was £540,000, of which £460,000 was in respect of chargeable business assets. John and his son have elected to hold over the gain on this gift of a business asset.
3. On 7 November 2021, John made a gift of an antique bracelet valued at £12,200 to his granddaughter. The antique bracelet had been purchased on 1 September 2006 for £2,100.

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4. On 29 January 2022, John made a gift of nine acres of land valued at £78,400 to his brother. He had originally purchased ten acres of land on 3 November 2010 for £37,800. The market value of the unsold acre of land as at 29 January 2022 was £33,600. The land has never been used for business purposes.

Required:

- a) Calculate John's chargeable gains for the tax year 2021/22. You should consider any applicable reliefs.
Note: You should ignore inheritance tax.

(7 Marks)

- b) For each of the four recipients of assets (1) to (4) gifted from John, state their respective base cost of capital gains tax purposes.

(4 Marks)

Part (c)

Alua Ltd had the following transactions in shares during the year ended 31 March 2022:

1. On 29 November 2021, Alua Ltd sold its entire shareholding of £1 ordinary shares in Pinto plc for £53,400. Alua Ltd had originally purchased 16,000 shares in Pinto plc on 14 June 2011 for £36,800. On 22 May 2013, Alua Ltd sold 10,000 of the shares for £46,200.

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2. On 12 February 2022, Alua Ltd.'s shareholding in Boom plc was taken over by Cool plc. Alua Ltd had originally purchased 10,000 £1 ordinary shares in Boom plc, and their indexed cost on 12 February 2022 was £33,000. Under the terms of the takeover, for each of its £1 ordinary shares in Boom plc, Alua Ltd received £6.50 in cash plus one £1 ordinary share in Cool plc.

Immediately after the takeover, Cool plc's ordinary shares were quoted at £4.50.

Assume the indexation factors are as follows:

June 2011 to May 2013	0.063
May 2013 to December 2017	0.112

Required:

- a) Calculate the chargeable gain arising from the sale of Alua's entire shareholding in Pinto. You should show full workings for the share pool. (4 Marks)
- b) Calculate the chargeable gain arising from Alua's shareholding in Boom Plc following the takeover during the year ended 31 March 2022. (3 Marks)
- c) Critically evaluate how the indexation allowance can be used when a company makes a capital loss, or where the indexation allowance is greater than a company's unindexed gain. (2 Marks)

Total 30 Marks

**End of Question 1
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Question 2- Answer both part (a) and (b)

Part (a)

Leo has been registered for valued added tax (VAT) since 1 April 2015. Leo makes taxable supplies in excess of the VAT registration threshold each year. Leo has previously completed his VAT returns himself, but for the quarter ended 31 March 2022 there are some items for which he is unsure of the correct VAT treatment.

Leo's partly completed VAT computation for the quarter ended 31 March 2022 is shown below. All of the completed sections of the computation are correct, with the omissions marked as outstanding (O/S).

	Note	£
Output VAT		
Sales (all standard-rated)		22,500
Discounted sale	1	O/S
Equipment Fuel	2	O/S
scale rate		60
Input VAT		
Purchases (all standard-rated)		(11,200)
Motor car (purchased on 1 January 2022)		0
Equipment	2	O/S
Impairment losses	3	O/S
Entertaining -UK customer		0
-Overseas	4	O/S
customers		
Motor expenses	5	O/S
VAT payable		<hr/> O/S <hr/>

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Section A Question 2 continued....

Unless otherwise stated, all of the figures in the following notes are stated exclusive of VAT.

Note 1 – Discounted sale

On 10 February 2022, a sales invoice for £4,300 was issued by Leo in respect of a standard-rated supply. To encourage this previously late paying customer to pay promptly, Leo offered a 10% discount for payment within 14 days of the date of the sales invoice. The customer paid within the 14-day period.

This invoice has not been taken into account in calculating the output VAT figure of £22,500, and this is the only sale for which Leo has offered a prompt payment discount.

Note 2 – Equipment

During the quarter ended 31 March 2022, Leo acquired some new equipment at a cost of £12,400 from a VAT registered supplier situated overseas.

Note 3 – Impairment losses

On 31 March 2022, Leo wrote off three impairment losses. Details are as follows:

Amount	Invoice date	Payment due date
£1,400	30 July 2021	29 August 2021
£2,700	12 September 2021	12 October 2021
£1,900	4 October 2021	3 November 2021

Note 4 – Entertaining

During the quarter ended 31 March 2022, Leo spent £960 on entertaining overseas customers. This figure is inclusive of VAT.

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Note 5 – Motor expenses

The motor car purchased on 1 January 2022 is used by Leo 60% for business mileage. During the quarter ended 31 March 2022, Leo spent £1,008 on repairs to the motor car and £660 on fuel for both his business and private mileage. Both of these figures are inclusive of VAT.

Additional information

Leo would like some information on making tax digital (MTD). He is aware the system has been implemented by HMRC and he would like to know more about it and whether it is relevant to small businesses.

Required:

- a) Calculate the amount of value added tax (VAT) payable by Leo for the quarter ended 31 March 2022. (12 Marks)
- b) Advise Leo about Making Tax Digital and whether it applies to his business. (3 Marks)

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Question 2- Part (b)

Brandon died on 22 January 2022. He had made the following gifts during his lifetime:

- 1) On 9 October 2014, a cash gift of £35,000 to a trust. No lifetime inheritance tax was payable in respect of this gift.
- 2) On 14 May 2020, a cash gift of £420,000 to his daughter.
- 3) On 2 August 2020, a gift of a property valued at £260,000 to a trust. No lifetime inheritance tax was payable in respect of this gift because it was covered by the nil rate band. By the time of Brandon' death on 22 January 2022, the property had increased in value to £310,000.

On 22 January 2022, Brandon' estate was valued at £870,000. Under the terms of his will, Brandon left his entire estate to his brother as his children already have considerable assets. Brandon believes his nephew will benefit from his estate in the future.

The nil rate band of Brandon' wife was fully utilised when she died ten years ago.

The nil rate band for the tax years 2014/15 and 2020/21 is £325,000.

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Required:

- a) Calculate the inheritance tax which will be payable as a result of Brandon's death, and state who will be responsible for paying the tax. (12 Marks)
- b) Evaluate why it might have been beneficial for inheritance tax purposes if Brandon had left a portion of his estate to his nephew rather than to his brother. (3 Marks)

Total 30 Marks

END OF QUESTION 2

END OF SECTION A

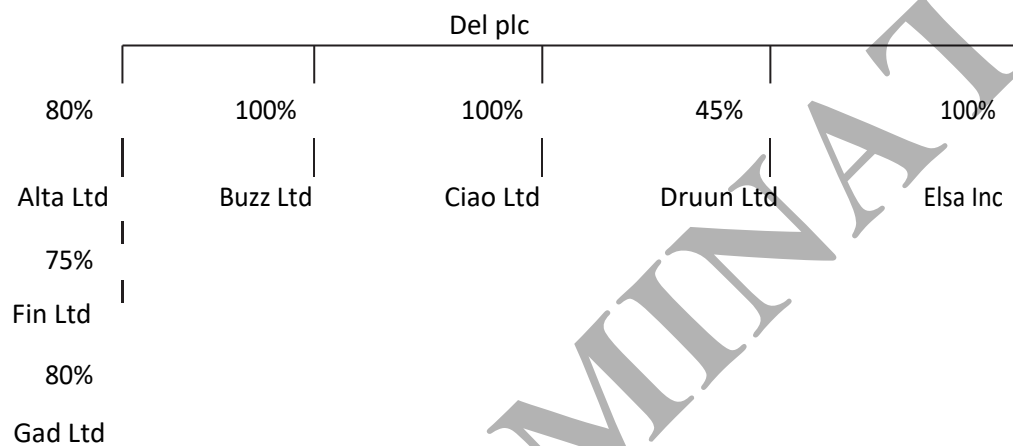
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SECTION B – Answer any TWO questions in this section

Question 3

Del plc is the holding company for a group of companies. The group structure is as follows:



Del plc's shareholding in Buzz Ltd was disposed of on 31 December 2021, and the shareholding in Ciao Ltd was acquired on 1 January 2022. The other shareholdings were all held throughout the year ended 31 March 2022.

Elsa Inc is resident overseas. The other companies are all resident in the United Kingdom.

Required:

- a) Evaluate which companies in the Del Plc group of companies form a group for capital gains purposes. You need to give appropriate reasons for your answer.

(8 Marks)

- b) Critically analyse the implications and the three main special tax rules to consider within a capital gains group.

(12 Marks)

Total 20 Marks

**End of question 3
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Question 4

Part (a)

On 3 October 2021 Daniel Levies sold his entire holding of shares in Cook Ltd, an unquoted trading company, for £151,107. He had subscribed for the shares and paid in full in cash on 23 May 2018 for £13,119. Daniel has never worked for Cook Ltd and has made no other gains during the tax year 2021/22 but has a capital loss of £1,572 from a less successful investment in Brill Ltd.

Required:

Explain why the disposal of the shares in Cook Ltd qualifies for investors' relief and calculate Jack's capital gains tax liability for the tax year 2021/22.

(10 Marks)

Part (b)

Tommy made a cash gift of £200,000 to his daughter on 20 December 2020. He is now going to make a cash gift of £450,000 to a trust on 20 February 2022. The nil rate band for the tax year 2020/21 is £325,000.

Required:

Calculate the lifetime inheritance tax that will be payable in respect of Tommy's gift of £450,000 to a trust if:

- 1) the trust pays the tax arising from the gift, or**
- 2) Tommy pays the tax arising from the gift**

and in the case of (2) only, state the value of the gross chargeable transfer.

(10 Marks)

Total 20 Marks

End of question 4

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Question 5

Part (a)

Carl had the following transactions in Hussain plc shares:

- 26 April 2010 Purchased 40,000 shares in Hussain plc for £260,000
- 19 May 2013 Hussain plc announced a 1:4 rights issue at £4 per share. Carl took up his rights in full.
- 3 May 2017 Hussain plc announced a 1:5 bonus issue
- 25 March 2022 Carl sold 12,500 shares for £175,000

Required:

a) Calculate the chargeable gain on the disposal on the 25th March 2022.
You should show full workings for the share pool.

(8 Marks)

b) State the due date for the capital gains tax payable.

(2 Marks)

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Section B Question 5 continued....

Part (b)

In October 2010 Hrithik sold a factory for £230,574 and realised a gain of £31,083.

In May 2011 he bought a warehouse for £231,211. He then sold the warehouse in December 2021 for £270,213.

Both of the buildings were used for the purposes of his sole trader business.

Required:

- a) **Compute the chargeable gain arising on the disposal of the warehouse in December 2021 assuming all available reliefs are claimed.**

(5 Marks)

- b) **Critically evaluate how the gain would have been accounted for in the case of a depreciating asset. No calculations are required for this part.**

(5 Marks)

Total 20 Marks

END OF QUESTIONS

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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

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