

UNIVERSITY OF BOLTON

GREATER MANCHESTER BUSINESS SCHOOL

BA(HONS) ACCOUNTANCY

SEMESTER ONE EXAMINATIONS 2023/2024

ADVANCED TAXATION

MODULE NO: ACC6002

Date: Tuesday 9th January 2024

Time: 10.00am – 1.00pm

INSTRUCTIONS TO CANDIDATES:

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

Answer **ALL FOUR** questions.

All questions carry equal marks.
You can use a calculator and you need to show all your workings.

PAST EXAMINATION

University of Bolton
 Greater Manchester Business School
 BA(Hons) Accountancy
 Semester 1 Examination 2023/2024
 Advanced Taxation
 Module No. ACC6002

Question 1**Part A**

1. On 30 June 2022 Chester sold a house for £308,000, realising a chargeable gain of £190,000. The house had been purchased on 1 January 2005 and throughout the 210 months of ownership had been occupied by Chester as follows:

Months

69	Occupied
30	Unoccupied– Required to work elsewhere in the UK by his employer
22	Unoccupied- Travelling overseas
46	Unoccupied- Required to work elsewhere in the UK by his employer
43	Occupied
<hr/>	
210	
<hr/>	

Throughout the period 1 January 2005 to 30 June 2022 Chester did not have any other main residence.

This is the only disposal in the tax year 2022/23.

Required:

Evaluate the amount of Private residence relief (PRR) in respect of Chester's chargeable gain on the disposal of his main residence.

(5 Marks)

2. Hobbit Ltd bought a factory for £175,000 on 1 June 2000. On 15 January 2018, the company spent £62,000 on an extension to the factory. The factory was sold on 31 August 2022, for £680,000.

Assume the indexation factor is as follows:

June 2000 to December 2017 0.625

Required:

Calculate Hobbit Ltd.'s chargeable gain.

(5 Marks)

**Question 1 continues over the page
 Please turn the page**

University of Bolton
Greater Manchester Business School
BA(Hons) Accountancy
Semester 1 Examination 2023/2024
Advanced Taxation
Module No. ACC6002

Question 1 continued

Part B

Jasper had the following transactions during the tax year 2022/23:

1. Sold 2,145 ordinary shares in Carrot plc on 19 November 2022 for net sale proceeds of £8,580.

His previous dealings in these shares were as follows:

- July 2013 purchased 1,750 shares for £2,625
 - May 2014 purchased 200 shares for £640
 - June 2015 took up 1 for 10 rights issue at £3.40 per share
2. Sold 400 £1 ordinary shares in Grasp plc for £3,600 on 31 March 2023. Jasper had acquired these Grasp plc shares as a result of a takeover bid by Grasp plc of Cawte plc on 5 December 2022.

Prior to the takeover Jasper had owned 12,000 £1 ordinary shares in Cawte plc, which he had acquired for £15,700 on 3 May 2014.

The terms of the takeover bid were:

- one £1 ordinary share in Grasp plc, plus
- two 10% preference shares in Grasp plc, plus
- 40p in cash for every £1 ordinary share in Cawte plc.

The quoted prices for Grasp plc shares at 5 December 2022 were:

£1 ordinary shares 350p
10% preference shares 110p

Required:

Calculate the total chargeable gains arising in the tax year 2022/23 in regards to the sale of shares in Carrot Plc and takeover by Grasp Plc.

(15 Marks)

Total 25 Marks

End of Question 1

**Questions continue over the page
Please turn the page**

University of Bolton
Greater Manchester Business School
BA(Hons) Accountancy
Semester 1 Examination 2023/2024
Advanced Taxation
Module No. ACC6002

Question 2

Alek & Bela

In September 1999 Alek purchased a flat, not his private residence, for £50,000. In May 2002, when its value was £140,000 he gave the flat to his partner Bela for £60,000. In May 2022 Bela sold the flat for £170,000. Alek and Bela were living together throughout the period. The flat has never been used for business purposes.

Luka

In February 2008 Luka bought a diamond bracelet for £30,000. It was stolen in July 2022 and Luka's insurance company paid £35,000 in compensation. In October 2022 Luka purchased a replacement bracelet costing £37,000.

Sophie

Sophie purchased a shareholding in Gamma Ltd for £48,000 in June 2018. Subsequently, she went to work for the company as its finance director.

In February 2023 she left the company and immediately sold her shares for £132,000.

Sophie made other chargeable gains, on non-residential property assets, in the tax year 2022/23, which do not qualify for business asset disposal relief of £15,900. She has taxable income of £15,000 in the tax year 2022/23.

Sherifa

Sherifa bought a factory in September 2006 and in December 2022, wishing to move to a more convenient location, she sold the factory for £750,000. The cost of the factory was £635,000. Sherifa moved into a rented factory until March 2023 when she purchased and moved into a new factory. Sherifa is a higher rate taxpayer.

Required:

- a) Calculate the chargeable gain on the disposal of Bela's flat. (3 Marks)
- b) Evaluate Luka's base cost for capital gains tax purposes of the replacement bracelet assuming that Luka makes all available elections. (4 Marks)
- c) Assuming that Sophie's disposal of shares in Gamma Ltd qualifies for business asset disposal relief (BADR), calculate the amount of capital gains tax payable by Sophie for the tax year 2022/23? (8 Marks)
- d) Calculate the amount of the gain which is chargeable, if any, on the sale of the original factory, and calculate the base cost of the new factory assuming the new factory was purchased for:
 - I. £700,000
 - II. £550,000

(10 Marks)
Total 25 Marks

End of Question 2
Questions continue over the page
Please turn the page

University of Bolton
 Greater Manchester Business School
 BA(Hons) Accountancy
 Semester 1 Examination 2023/2024
 Advanced Taxation
 Module No. ACC6002

Question 3
Part (a)

You are provided with the following information relating to Omar's VAT position:

Quarter ended 31 March 2023

The VAT-exclusive management accounts show the following:

	£	£
Sales		15,400
Purchases	9,300	
Impaired debts written off	1,500	
Other expenses	2,500	
	—————	
		(13,300)
Profit		2,100

1. The sales, purchases and other expenses are all standard rated for VAT.
2. Input tax on all purchases is recoverable.
3. The impaired debts were written off in March 2023. Payment for the original sales was due on 20 December 2022.
4. A sales invoice for £3,000 excluding VAT had been omitted in error from the VAT return for the quarter to 31 December 2022.
5. Included in the other expenses figure is the cost of both business and private petrol for Omar's car which has CO2 emissions of 200g/km. Omar will claim the maximum allowable input tax on the petrol costs. The quarterly car fuel charge (VAT inclusive) is £436.
6. Included in the other expenses figure is £100 spent entertaining a key UK client.
7. Omar submitted the return and paid the VAT for the quarter to 31 March 2023 and all previous returns on time.

Required:

Calculate the amount of value added tax (VAT) payable by Omar for the quarter ended 31 March 2023 showing your workings and notes where relevant

(10 Marks)

Question 3 continues over the page
Please turn the page

University of Bolton
Greater Manchester Business School
BA(Hons) Accountancy
Semester 1 Examination 2023/2024
Advanced Taxation
Module No. ACC6002

Question 3 continued
Part B

Fruit Ltd owns 80% of Apple Ltd, 90% of Pear Ltd and 100% of Mango Inc. Apple Ltd owns 80% of Lychee Ltd. Mango Inc owns 80% of Pineapple Ltd.

All companies are resident in the UK except Mango Inc which is resident in the US. Pear Ltd suffered a trading loss in the year ending 31 March 2023.

Required:

- a) **Critically discuss the criteria for related 51% group companies and 75% group including group relief.**
(5 Marks)
- b) **Based on the above scenario, assess with explanation which companies form a Group relief loss group and to which companies could Pear Ltd surrender its trading loss.**
(5 Marks)
- c) **Critically evaluate the factors which classify a company as a close company.**
(5 Marks)

Total 25 Marks

End of Question 3

**Questions continue over the page
Please turn the page**

University of Bolton
 Greater Manchester Business School
 BA(Hons) Accountancy
 Semester 1 Examination 2023/2024
 Advanced Taxation
 Module No. ACC6002

Question 4

Mateo is nearing the end of his life.

The current value of his estate is as follows:

	£
30,000 shares (4% holding) in Orb plc, a quoted company	40,000
ISA deposits	80,000
Main residence	350,000
Rental property	110,000
	580,000

Under the terms of the will, Mateo will leave all of his assets to his son.

Mateo has made the following transfers of value during his lifetime:

- 1 On 1st November 2011, he made a gift of £203,000 into a trust. The trust paid any IHT arising on the gift.
- 2 On 1st October 2018, he gave his son £150,000 as a wedding gift.
- 3 On 1st February 2020, he gave £200 to his granddaughter.

The nil rate bands for earlier years are as follows:

2011/12	£325,000
2018/19	£325,000
2019/20	£325,000

Required:

- a) Calculate the IHT liabilities that would arise if Mateo were to die on 31 December 2022 and state the relevant due dates of payment. You need to show all your workings in regards to the lifetime gifts and death estate.

(17 Marks)

- b) Evaluate the different IHT tax planning measures to minimise the amount of tax payable and maximise the inheritance of the next generation.

(8 Marks)

Total 25 Marks

END OF QUESTIONS

SUMMARY OF TAX RATES AND ALLOWANCES OVER THE PAGE
 PLEASE TURN THE PAGE

University of Bolton
 Greater Manchester Business School
 BA(Hons) Accountancy
 Semester 1 Examination 2023/2024
 Advanced Taxation
 Module No. ACC6002

Summary of tax rates and allowances

INCOME TAX

		Normal rates	Dividend rates
Basic rate	£1 – £37,700	20%	8.75%
Higher rate	£37,701 – £150,000	40%	33.75%
Additional rate	£150,001 and over	45%	39.35%
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

Child benefit income tax charge

Where income is between £50,000 and £60,000, the charge is 1% of the amount of child benefit received for every £100 of income over £50,000.

Summary of tax rates and allowances continues over the page
 Please turn the page

University of Bolton
 Greater Manchester Business School
 BA(Hons) Accountancy
 Semester 1 Examination 2023/2024
 Advanced Taxation
 Module No. ACC6002

Summary of tax rates and allowances continued

Car benefit percentage

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

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

51 grams to 54 grams per kilometre	15%
55 grams per kilometre	16%

The percentage for electric cars with zero CO₂ emissions is 2%.

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

Electric range

130 miles or more	2%
70 to 129 miles	5%
40 to 69 miles	8%
30 to 39 miles	12%
Less than 30 miles	14%

Car fuel benefit

The base figure for calculating the car fuel benefit is £25,300.

Company van benefits

The company van benefit scale charge is £3,600, and the van fuel benefit is £688.

Vans producing zero emissions have a 0% benefit.

Individual Savings Accounts (ISAs)

The overall investment limit is £20,000.

Pension scheme limits

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

The maximum contribution which 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

Summary of tax rates and allowances continues over the page
 Please turn the page

University of Bolton
 Greater Manchester Business School
 BA(Hons) Accountancy
 Semester 1 Examination 2023/2024
 Advanced Taxation
 Module No. ACC6002

Summary of tax rates and allowances continued

Capital allowances: rates of allowance

Plant and machinery

Main pool	18%
Special rate pool	6%

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%
-------------------------	----

Cash basis accounting

Revenue limit	£150,000
---------------	----------

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 2022		19%
– Financial year 2021		19%
– Financial year 2020		19%
Profit threshold		£1,500,000

VALUE ADDED TAX (VAT)

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

Summary of tax rates and allowances continues over the page
 Please turn the page

University of Bolton
 Greater Manchester Business School
 BA(Hons) Accountancy
 Semester 1 Examination 2023/2024
 Advanced Taxation
 Module No. ACC6002

Summary of tax rates and allowances continued

INHERITANCE TAX: 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 – £12,570 per year	Nil
		£12,571 – £50,270 per year	13.25%
		£50,271 and above per year	3.25%
Class 1	Employer	£1 – £9,100 per year	Nil
		£9,101 and above per year	15.05%
		Employment allowance	£5,000
Class 1A			15.05%
Class 2		£3.15 per week	
	Lower profits limit		£12,570
Class 4		£1 – £12,570 per year	Nil
		£12,571 – £50,270 per year	10.25%
		£50,271 and above per year	3.25%

Summary of tax rates and allowances continues over the page
 Please turn the page

University of Bolton
 Greater Manchester Business School
 BA(Hons) Accountancy
 Semester 1 Examination 2023/2024
 Advanced Taxation
 Module No. ACC6002

Summary of tax rates and allowances continued

RATES OF INTEREST (assumed)

Official rate of interest	2.00%
Rate of interest on underpaid tax	3.25%
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%

END OF SUMMARY OF TAX RATES AND ALLOWANCES

END OF EXAM PAPER