

UNIVERSITY OF BOLTON

GREATER MANCHESTER BUSINESS SCHOOL

**MSC ACCOUNTANCY AND FINANCIAL
MANAGEMENT**

SEMESTER TWO EXAMINATIONS 2023/2024

ADVANCED TAXATION

MODULE NO: ACC7506

Date: Wednesday 15 May 2024

Time:

10.00 – 1.00

INSTRUCTIONS TO CANDIDATES:

There are 3 questions on this paper.

Answer ALL THREE 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 FROM THIS SECTION

Question 1

You should assume that today's date is 4 September 2024.

You are an ACCA student working for a firm of accountants. Your manager has received a schedule of information from Kale, the new managing director of Breg Ltd, a potential client of your firm. This schedule, and extracts from an email from your manager detailing the work you are required to do, are included in the exhibits.

In addition to some ethical considerations which have been raised by your manager, advice is required in respect of:

- How we might suggest relieving the chargeable gain arising on the sale of Brod Ltd's business premises
- How the taxation of the overseas profits should be taxed
- The value added tax (VAT) implications of being a group
- Why Kale has insufficient cash to pay for his living costs

The following exhibits provide information relevant to the question:

1. Schedule from Kale
2. Extract from Breg Ltd client file
3. Email from Kale – outlining his personal financial situation
4. Work to be carried out Email from your manager

This information should be used to answer the question **requirements** within your chosen **response option(s)**.

Exhibit 1: Schedule from Kale as at 4 September 2024

Company history

On 1 August 2022, Breg Ltd purchased the whole of the ordinary share capital of two companies: Brod Ltd and Kas Co.

On 1 July 2024, Breg Ltd purchased the whole of the ordinary share capital of Dot Ltd.

All four companies in the Breg Ltd group prepare accounts to 31 March each year and are budgeted to be profitable in the year ending 31 March 2025. Dot Ltd's profits are estimated to be less than £50,000 for that year.

Further details of the companies are set out below, followed by a summary of recent significant transactions.

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	Breg Ltd	Brod Ltd	Kas Co	Dot Ltd
Country of residence	UK	UK	Silana	UK
Country of trading activity	UK	UK	Silana	Puran
Whether registered for VAT	Yes	Yes	No	No
Rate of overseas tax	N/A	N/A	11%	13%

Breg Ltd – purchase of business

On 1 February 2024, Breg Ltd purchased the trade and assets of a business. The only significant asset of the business was its production line, which consisted of three large items of fixed machinery. Breg Ltd paid £290,000 for this machinery.

Brod Ltd

Brod Ltd is experiencing cash flow problems. On 30 June 2024, it sold its business premises to an unconnected party for £485,000, resulting in a chargeable gain of £247,000. This building was entirely used in Brod Ltd's trade throughout the period it was owned. Brod Ltd now trades from rented premises. On 1 August 2024, it used £120,000 of the sale proceeds to purchase eight delivery vans for use in its trade.

Kas Co

On 1 July 2024, Kas Co purchased a building situated in Silana for £170,000. This building was immediately brought into use in Kas Co's trade.

Kas Co manufactures industrial components, which it supplies to customers in Silana and in other countries. It is intended that Breg Ltd will purchase components from Kas Co and import them for use in its own manufacturing trade.

In view of the low rate of business tax in Silana, I am considering pricing strategies which would maximise the profits of the group which are taxed there. Our previous tax advisers had suggested this to me as an excellent way to minimise the group's overall tax liability.

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Dot Ltd

Dot Ltd carries on its trade in Puran where it has production and distribution facilities. It has not made any capital additions or disposals of significance since 2022.

Value added tax (VAT)

Finally, I am looking into the possibility of a group VAT registration.

Exhibit 2: Extract from Breg Ltd client file

Notes by Tax Manager following initial meeting with Kale

- There is no double tax treaty between the UK and either the country of Silana or the country of Puran.
- There are no controlled foreign companies implications within the Breg Ltd group.
- Breg Ltd is a small enterprise for the purposes of the transfer pricing regime.
- Kas Co cannot be included within a group VAT registration with Breg Ltd.
- Breg Ltd is a privately owned company not listed on any recognised investment exchange or any alternative market.

Exhibit 3: Email from Kale

To: Tax Manager
From: Kale
Subject: Shortage of funds
Date: 4 September 2024

Dear Tax Manager,

Please find attached a signed engagement letter as per our discussion where you explained that I am a separate client to Breg Ltd. I also enclose the documentation requested to enable you to verify my identity etc.

Background

As you know, I have recently joined Breg Ltd following my relocation back to the UK from Tavera. I was born in the UK and lived here until I was 35 years old. On 1 May 2001, I moved to the country of Tavera where I lived until I moved back to the UK on 1 March 2024.

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Question 1 continues

Income from employment in the tax year 2024/25

On 6 April 2024, I began working full time in the UK for Breg Ltd. For the tax year 2024/25 my employment package will comprise the following:

- A gross annual salary of £88,000.
- Employment income benefits in respect of a car and accommodation, amounting to £26,230.
- 7,200 ordinary shares issued to me by Breg Ltd on 1 May 2024 as an introductory 'thank you' for joining the company. I paid £14,400 for these shares, which had a market value of £23,200 at that time.
- I anticipate that in 2024/25 I will receive dividend income from these shares of £18,300.

Other information

When I moved to Tavera I intended to stay permanently and, following legal advice, acquired a domicile of choice in the country of Tavera in 2002/03. Although I have now returned to the UK, I am not intending to revert back to my UK domicile of origin – i.e. I intend to retain my Tavera domicile.

Prior to my relocation to Tavera in May 2001 I had always lived in the UK. I did not visit the UK again until my return on 6 April 2024. For various reasons I am not planning on going abroad again in the next few years but ultimately, I plan to return to Tavera for my retirement.

Query

What I don't understand is how, despite my level of income, I never seem to have enough money left to cover my expenditure. I seem to pay inordinate amounts in tax and there just isn't enough left to cover my annual personal expenditure of £57,600.

Kind regards

Kale

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Exhibit 4: Work to be carried out

To: Tax Senior
From: Tax Manager
Subject: Meeting with Kale (Breg Ltd)
Date: 4 September 2024

Hi, I expect the Breg Ltd group to be an exciting new client for our firm. Kale has ambitious plans and, although we advise a number of corporate groups, this will give us our first experience of companies operating through permanent establishments situated overseas. I need you to prepare a memorandum for the client file consisting of the work set out below

a) Becoming tax advisers to the Breg Ltd group of companies (Exhibit 1)

Set out the information we require, and the actions we should take, before we agree to become tax advisers to the Breg Ltd group of companies.

(5 marks)

b) Relieving the chargeable gain on the sale of Brod Ltd's business premises (Exhibit 1)

Explain the matters which should be brought to Kale's attention in relation to the availability of rollover relief in respect of the chargeable gain on the sale of Brod Ltd's business premises, and how the relief would operate.

(10 marks)

c) Taxation of profits generated overseas (Exhibits 1 & 2)

Kas Co

Explain the interactions, in relation to UK corporation tax payable, of Kas Co charging Breg Ltd inflated prices for its components in order to maximise the profits of the group which are taxed in Silana.

Dot Ltd

Explain:

- the rate of corporation tax which will be suffered by Dot Ltd in the UK on its profits generated by its permanent establishment in Puran; and
- the matters to consider when deciding whether to make an election to exempt the profits of the permanent establishment in Puran from UK tax.

(9 marks)

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d) Value added tax (VAT) (Exhibits 1 & 2)

Explain:

- which of the companies within the group could be included within a group VAT registration;
- any potential disadvantages, relevant to the Breg Ltd group of companies, of registering for VAT as a group;
- the VAT implications for Breg Ltd of purchasing components from Kas Co.

(7 marks)

e) Kale's financial position for the tax year 2024/25 (Exhibits 2 & 3)

Prepare calculations suitable for me to share with Kale which explain why his post-tax income is less than his annual personal expenditure.

(9 marks)

Regards

Tax Manager

Required:

You should assume that today's date is 4 September 2024.

Respond to the instructions in the email from your manager.

Note: The split of the mark allocation is shown in Exhibit 4 – Work to be carried out.

(40 marks)

Professional marks will be awarded for the demonstration of skill in communication, analysis and evaluation, scepticism, and commercial acumen in your answer.

(10 marks)

Total 50 Marks

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SECTION B – ANSWER ALL QUESTIONS FROM THIS SECTION

Question 2

You should assume that today's date is 4 December 2024.

Jemma, a client of your firm, is about to make significant changes to her personal and financial affairs.

Advice is required on:

- the inheritance tax and capital gains tax implications of a gift of shares to Jemma's son; and
- the optimum time for Jemma to sell shares in a company registered in Manchester, UK, in order to maximise the post-tax proceeds.

The following **exhibit** provides information relevant to the question. This information should be used to answer the question **requirements**.

Exhibit 1: Jemma

Jemma:

- Jemma is married to John, and she is approaching her 75th birthday.
- The couple have two adult children: a son, Edward, and a daughter, Janet.
- Jemma has always been domiciled in the country of Falgar.
- Jemma was resident in the UK from 6 April 2001 until she and John moved to Falgar on 1 February 2022. On her return to the UK on 1 May 2025, Jemma will resume UK residency.
- Jemma is a higher rate taxpayer.

Taxation in Falgar

- Income tax is charged at 26% on all income arising in Falgar.
- There is no capital gains tax or inheritance tax.
- There is no double tax treaty between the UK and Falgar.

KYT Ltd

- KYT Ltd is an unquoted manufacturing company, which is registered in the UK. It does not own any assets other than those which are used in its trade.
- The shareholders in KYT Ltd are set out below. The shareholdings have not changed for many years.

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	Number of shares
Jemma	35,000
John (Jemma's husband)	19,000
Janet (Jemma's daughter)	10,000
Sasha (Jemma's sister)	20,000
Gerald (Sasha's husband)	16,000
Total	100,000

The shares in KYT Ltd on 1 July 2025 will have a value of:

Shareholding	Value per share
	£
Up to 25%	10
26% to 50%	13
51% to 74%	19
More than 75%	22

Lifetime gifts

- On 1 July 2025 Jemma intends to give her son, Edward, 10,000 ordinary shares in KYT Ltd. Edward has spent most of the last few years travelling in Asia and Jemma is hoping that this gift of shares will persuade him to return to the UK.
- On 1 October 2020, Jemma made a cash gift to her daughter, Janet. This resulted in a transfer of value after deduction of exemptions of £280,000. This is the only gift Jemma has made.

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Shares in a company registered in Manchester, UK

- Jemma owns shares in a company registered in Manchester, UK. She has held the shares since 1 December 2020.
- Jemma is undecided whether to sell the shares immediately which would realise a gain of £330,000, or to wait until after her return to the UK which would increase the sale proceeds (and hence the gain) by £60,000.

Required:

You should assume that today's date is 4 December 2024.

- a) In relation to Jemma's proposed gift to her son, Edward:
1. explain the circumstances which would result in the maximum inheritance tax liability
 2. a calculation of the amount which would then be due; and
 3. explain whether capital gains tax gift relief will be available in respect of this gift.

(13 marks)

- b) Explain whether an immediate sale of the shares in a company registered in Manchester, UK, is the most beneficial from a tax perspective.

(7 marks)

Professional marks will be awarded for the demonstration of skill in analysis and evaluation, and commercial acumen in your answer.

(5 marks)

Total 25 Marks

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Question 3

You should assume that today's date is 4 December 2024.

Camilla is a sole trader. She has owned her unincorporated business, JST Trading, for many years. Camilla's business is expected to be loss making for its current year of trade.

Advice is required on:

- how Camilla could make use of the loss incurred by her business;
- the tax implications of replacing a warehouse; and
- deregistration for value added tax (VAT) purposes.

The following **exhibit** provides information relevant to the question. This information should be used to answer the question **requirements**.

Exhibit 1: Camilla**Camilla:**

- Has savings income of £6,000 each year.
- Had rental income of £11,600 from a UK residential property in the tax year 2023/24.
- Has no rental income in the tax year 2024/25 as the letting ceased on 31 March 2024.
- Sold this property on 30 April 2024.

JST Trading – tax adjusted trading profit/(loss):

	£
Year ended 31 March 2024	30,000
Year ending 31 March 2025 (forecast)	(14,000)

Camilla – recent capital disposals:

Camilla's capital disposals are as follows:

Asset	Date of disposal	(loss)/gain £
Painting	1 June 2023	(10,700)
UK rental property	30 April 2024	45,000
Shares in Swartz Ltd	16 August 2024	28,000

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- All of these disposals were made to unconnected persons.
- Camilla had never lived in the UK rental property.
- Swartz Ltd is an unquoted trading company.
- Camilla sold the whole of her 3% shareholding in Swartz Ltd.

Proposed sale of Warehouse 1:

- Camilla acquired Warehouse 1 on 1 May 2018 for £86,000.
- Camilla will sell Warehouse 1 on 1 May 2025 for its expected market value at that date of £118,000.
- JST Trading occupies three out of the four floors of Warehouse 1.
- The remaining floor has been rented to tenants throughout Camilla's ownership of the building.

Proposed purchase of Warehouse 2:

- Camilla will purchase this warehouse, and a forklift truck for use in the warehouse, on 1 March 2025.
- Camilla will pay £83,000 for Warehouse 2, and will pay £23,000 for the forklift truck.
- Camilla will start to use the whole of Warehouse 2 in her business from 1 May 2025.

JST Trading – taxable turnover for value added tax (VAT) purposes:

	£
Year ended 31 March 2024	92,000
Year ending 31 March 2025 (forecast)	65,000
Year ending 31 March 2026 (forecast)	79,000

- Camilla expects that the taxable turnover of the business will continue to increase gradually in the next few years.
- JST Trading makes wholly standard-rated supplies.
- Camilla wishes to apply for voluntary deregistration for VAT purposes on 31 March 2025.

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Required:

You should assume that today's date is 4 December 2024.

(a)

(i) State the reliefs available to Amelia in respect of her trading loss of the year ending 31 March 2025, on the assumption that Amelia does not wish to carry forward any of the loss.

(3 marks)

(ii) Explain, with supporting calculations, how much tax would be saved for each of the reliefs identified in requirement (a)(i).

(8 marks)

(b) Explain, with supporting calculations, the capital gains tax and income tax implications for Amelia of the proposed sale of Warehouse 1, and the acquisition of Warehouse 2 and the forklift truck.

(6 marks)

(c) Explain why Amelia can apply to voluntarily deregister for value added tax (VAT) purposes on 31 March 2025, from what date her VAT registration would be cancelled, and the immediate consequences for her of deregistering.

(3 marks)

Professional marks will be awarded for the demonstration of skill in analysis and evaluation, and commercial acumen in your answer.

(5 marks)

Total 25 Marks

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- 1 You should assume that the tax rates and allowances for the tax year 2023/24 and for the financial year to 31 March 2024 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%	8.75%
Higher rate	£37,701 – £125,140	40%	33.75%
Additional rate	£125,141 and over	45%	39.35%
Savings income nil rate band	– Basic rate taxpayers		£1,000
	– Higher rate taxpayers		£500
Dividend nil rate band			£1,000

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

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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 a car is relevant:

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 £27,800.

Company van benefits

The company van benefit scale charge is £3,960, and the van fuel benefit is £757.

A van with zero CO₂ emissions does not give rise to a benefit.

Individual savings accounts (ISAs)

The overall investment limit is £20,000.

Rent-a-room relief

The rent-a-room relief limit is £7,500.

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 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

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Capital allowances: rates of allowance

Plant and machinery

Main pool	18%
Special rate pool	6%

Cars

New cars with zero CO ₂ emissions	100%
Second-hand cars with zero CO ₂ emissions	18%
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

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

Financial year	2021	2022	2023
Small profits rate	N/A	N/A	19%
Main rate	19%	19%	25%
Lower limit	N/A	N/A	£50,000
Upper limit	N/A	N/A	£250,000
Standard fraction	N/A	N/A	3/200

Marginal relief

(Upper limit – Augmented profits) × Standard fraction × $\frac{\text{Taxable total profits}}{\text{Augmented profits}}$

Quarterly instalments

Profit threshold	£1,500,000
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Value added tax (VAT)

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

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Penalties for late VAT payments

Days late	Penalty
Up to 15 days	None
16 to 30 days	2%
More than 30 days	4% plus a 4% daily penalty

Inheritance tax: nil rate bands and tax rates

Nil rate band	£325,000
Residence nil rate band	£175,000
Rate of tax on excess over nil rate band	– 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		£6,000

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%

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National insurance contributions

Class 1 Employee	£1 – £12,570 per year	Nil
	£12,571 – £50,270 per year	12%
	£50,271 and above per year	2%
Class 1 Employer	£1 – £9,100 per year	Nil
	£9,101 and above per year	13.8%
	Employment allowance	£5,000
Class 1A		13.8%
Class 2	£3.45 per week	
	Lower profits limit	£12,570
Class 4	£1 – £12,570 per year	Nil
	£12,571 – £50,270 per year	9%
	£50,271 and above per year	2%

Rates of interest (assumed)

Official rate of interest	2.25%
Rate of interest on underpaid tax	6.50%
Rate of interest on overpaid tax	3.00%

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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