Fundamentals Level – Skills Module

Taxation (United Kingdom)

Monday 6 June 2011

Paper F6 (UK)

Time allowed
Reading and planning: 15 minutes
Writing: 3 hours

ALL FIVE questions are compulsory and MUST be attempted.
Rates of tax and tables are printed on pages 2–4.

Do NOT open this paper until instructed by the supervisor.

During reading and planning time only the question paper may be annotated. You must NOT write in your answer booklet until instructed by the supervisor.

This question paper must not be removed from the examination hall.

ACCA

The Association of Chartered Certified Accountants

SUPPLEMENTARY INSTRUCTIONS

1. Calculations and workings need only be made to the nearest £.
2. All apportionments should be made to the nearest month.
3. All workings should be shown.

TAX RATES AND ALLOWANCES

The following tax rates and allowances are to be used in answering the questions.

Income tax

		Normal rates %	Dividend rates %
Basic rate	£1 – £37,400	20	10
Higher rate	£37,401 to £150,000	40	32·5
Additional rate	£150,001 and over	50	42·5

A starting rate of 10% applies to savings income where it falls within the first £2,440 of taxable income.

Personal allowance

Personal allowance	Standard	£6,475
Personal allowance	65 – 74	£9,490
Personal allowance	75 and over	£9,640
Income limit for age related allowances		£22,900
Income limit for standard personal allowance		£100,000

Car benefit percentage

The base level of CO_2 emissions is 130 grams per kilometre.

A rate of 5% applies to petrol cars with CO_2 emissions of 75 grams per kilometre or less, and a rate of 10% applies where emissions are between 76 and 120 grams per kilometre.

Car fuel benefit

The base figure for calculating the car fuel benefit is £18,000.

Pension scheme limits

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

Authorised mileage allowances: cars

Up to 10,000 miles	40p
Over 10,000 miles	25p

Capital allowances: rate of allowances

	%
Plant and machinery	
Main pool	20
Special rate pool	10
Motor cars (purchases since 6 April 2009 (1 April 2009 for limited companies))	
CO_2 emissions up to 110 grams per kilometre	100
CO_2 emissions between 111 and 160 grams per kilometre	20
CO_2 emissions over 160 grams per kilometre	10
Annual investment allowance	
First £100,000 of expenditure	100
Industrial buildings	
Writing down allowance	1

Corporation tax

Financial year	2008	2009	2010
Small profits rate	21%	21%	21%
Main rate	28%	28%	28%
Lower limit	300,000	300,000	300,000
Upper limit	1,500,000	1,500,000	1,500,000
Standard fraction	7/400	7/400	7/400

Marginal relief

Standard fraction x (U – A) x N/A

Value added tax (VAT)

Standard rate	– Up to 3 January 2011	17·5%
	– From 4 January 2011 onwards	20·0%
Registration limit		£70,000
Deregistration limit		£68,000

Inheritance tax: tax rates

£1 – £325,000	Nil
Excess – Death rate	40%
– Lifetime rate	20%

Inheritance tax: taper relief

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

Capital gains tax

Rate of tax – Lower rate	18%
– Higher rate	28%
Annual exempt amount	£10,100
Entrepreneurs' relief – Lifetime limit	£5,000,000
– Rate of tax	10%

National insurance contributions
(Not contracted out rates)

			%
Class 1	Employee	£1 – £5,715 per year	Nil
		£5,716 – £43,875 per year	11·0
		£43,876 and above per year	1·0
Class 1	Employer	£1 – £5,715 per year	Nil
		£5,716 and above per year	12·8
Class 1A			12·8
Class 2		£2·40 per week	
		Small earnings exemption	£5,075
Class 4		£1 – £5,715 per year	Nil
		£5,716 – £43,875 per year	8·0
		£43,876 and above per year	1·0

Rates of interest (assumed)

Official rate of interest	4·0%
Rate of interest on underpaid tax	3·0%
Rate of interest on overpaid tax	0·5%

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Question 1 begins on page 6.

ALL FIVE questions are compulsory and MUST be attempted

1 (a) You should assume that today's date is 20 November 2010.

Bayle Defender is self-employed as a lawyer. She is also a director of Acquit & Appeal Ltd. The following information is available for the tax year 2010–11:

Self-employment

(1) Bayle's income statement for the year ended 30 September 2010 is as follows:

	Note	£	£
Revenue	2		324,100
Expenses			
Gifts and donations	3	8,680	
Lease of motor car	4	10,360	
Professional fees	5	3,240	
Property expenses	6	46,240	
Travel expenses	7	16,770	
Other expenses	8	66,410	
			(151,700)
Net profit			172,400

(2) Revenue includes £2,800 received during May 2010 in respect of an impairment loss that Bayle had written off when calculating her trading profit for the year ended 30 September 2008.

(3) Gifts and donations are as follows:

	£
Gifts to customers (clocks costing £110 each and displaying Bayle's name)	3,300
Gifts to customers (bottles of champagne costing £40 each and displaying Bayle's name)	2,480
Donations to political parties	2,900
	8,680

(4) The lease commenced on 1 October 2009, and is in respect of a motor car with CO_2 emissions of 244 grams per kilometre. There is no private use of the motor car.

(5) The figure of £3,240 for professional fees is in respect of accountancy services, of which £600 is for inheritance tax planning advice.

(6) Bayle lives in an apartment that is situated above her office, and two-fifths of the total property expenses of £46,240 relate to this apartment.

(7) The figure of £16,770 for travel expenses includes £520 for parking fines incurred by Bayle.

(8) The figure for other expenses of £66,410 includes £670 for Bayle's professional subscription to the Law Society, and £960 for her golf club membership fee.

Director's remuneration

(9) Bayle will be paid gross director's remuneration of £42,000 by Acquit & Appeal Ltd during the tax year 2010–11.

(10) In addition to her director's remuneration, Bayle received two bonus payments of £6,000 from Acquit & Appeal Ltd during June 2010, both of which were in respect of the year ended 31 December 2009. Bayle became entitled to the first bonus payment of £6,000 on 10 March 2010, and to the second bonus payment of £6,000 on 20 April 2010.

(11) Acquit & Appeal Ltd deducts PAYE at a flat rate of 50% from all of Bayle's earnings.

Other information

(12) During the tax year 2010–11 Bayle will receive dividends of £9,900, interest of £5,240 on the maturity of a savings certificate issued by National Savings & Investments (NS&I), and interest of £3,600 from government stocks (gilts). These are the actual cash amounts that will be received.

(13) Bayle's payments on account of income tax in respect of the tax year 2010–11 will total £53,400.

Required:

(i) Calculate Bayle Defender's tax adjusted trading profit for the year ended 30 September 2010;

Note: Your computation should commence with the net profit figure of £172,400, and you should also list all of the items referred to in notes (2) to (8) indicating by the use of zero (0) any items that do not require adjustment. (6 marks)

(ii) Calculate the income tax payable by Bayle Defender for the tax year 2010–11; (8 marks)

(iii) Calculate the amount of income tax that will be due for payment by Bayle Defender on 31 January 2012, and advise her of the consequences if this amount is not paid until 31 August 2012.

Note: You should ignore national insurance contributions. (5 marks)

(b) On 1 December 2010 Bayle Defender is planning to bring a newly qualified lawyer, Fyle Guardian, into her business. Fyle will either be taken on as an employee, being paid a gross monthly salary of £3,300, or join Bayle as a partner, receiving a 20% share of the new partnership's profits.

Bayle has forecast that her tax adjusted trading profit will be £216,000 for the year ended 30 September 2011, and £240,000 for the year ended 30 September 2012.

Fyle does not have any other income for the tax year 2010–11.

Required:

(i) Assuming that Fyle Guardian is employed from 1 December 2010, calculate the total amount of national insurance contributions that will be paid by Bayle Defender and Fyle Guardian, if any, in respect of his earnings for the tax year 2010–11;

Note: You are not expected to calculate the national insurance contributions that will be paid in respect of Bayle Defender's earnings. (4 marks)

(ii) Assuming that Fyle Guardian becomes a partner from 1 December 2010:

(1) Calculate his trading income assessments for the tax years 2010–11 and 2011–12.

Note: You are not expected to calculate any overlap profits. (4 marks)

(2) Calculate the total amount of national insurance contributions that will be paid by Bayle Defender and Fyle Guardian, if any, in respect of his trading income assessment for the tax year 2010–11.

Note: You are not expected to calculate the national insurance contributions that will be paid in respect of Bayle Defender's trading income assessment. (3 marks)

(30 marks)

2 Molten-Metal plc is a manufacturer of machine tools. The following information is available for the year ended 31 March 2011:

Trading profit

The tax adjusted trading profit for the year ended 31 March 2011 is £1,882,600. This figure is **before** making any deductions required for:

(1) Interest payable.

(2) Capital allowances.

(3) Any revenue expenditure that may have been debited to the company's capital expenditure account in error.

Interest payable

During the year ended 31 March 2011 Molten-Metal plc paid loan stock interest of £22,500. Loan stock interest of £3,700 was accrued at 31 March 2011, with the corresponding accrual at 1 April 2010 being £4,200. The loan is used for trading purposes.

The company also incurred a loan interest expense of £6,800 in respect of a loan that is used for non-trading purposes.

Capital expenditure account

The following items of expenditure have been debited to the capital expenditure account during the year ended 31 March 2011:

1 May 2010	Purchase of a second-hand freehold office building for £378,000. This figure included £32,000 for a ventilation system and £46,000 for a lift. Both the ventilation system and the lift are integral to the office building. During May 2010 Molten-Metal plc spent a further £97,400 on repairs. The office building was not usable until these repairs were carried out, and this fact was represented by a reduced purchase price.
26 June 2010	Purchase of machinery for £81,600. During June 2010 a further £7,700 was spent on building alterations that were necessary for the installation of the machinery.
8 August 2010	A payment of £41,200 for the construction of a new decorative wall around the company's premises.
27 August 2010	Purchase of movable partition walls for £22,900. Molten-Metal plc uses these to divide up its open plan offices, and the partition walls are moved around on a regular basis.
11 March 2011	Purchase of two motor cars each costing £17,300. Each motor car has a CO_2 emission rate of 140 grams per kilometre. One motor car is used by the factory manager, and 60% of the mileage is for private journeys. The other motor car is used as a pool car.

Written down value

On 1 April 2010 the tax written down value of plant and machinery in Molten-Metal plc's main pool was £87,800.

Industrial buildings allowance

Molten-Metal plc claims industrial buildings allowance in respect of a factory that was constructed at a cost of £732,000, and brought into use as an industrial building on 1 July 2005. The cost was made up as follows:

	£
Drawing office serving the factory	84,000
General offices	165,000
Factory	483,000
	732,000

Property income

Since 1 February 2011 Molten-Metal plc has let out an unfurnished freehold office building that is surplus to requirements. On that date the tenant paid the company £78,800, consisting of a premium of £68,000 for the grant of a six-year lease, and the advance payment of three months' rent.

Interest receivable

Molten-Metal plc made a loan for non-trading purposes on 1 August 2010. Loan interest of £9,800 was received on 31 January 2011, and £3,100 was accrued at 31 March 2011.

The company also received bank interest of £2,600 during the year ended 31 March 2011. The bank deposits are held for non-trading purposes.

Disposal of office building

On 20 May 2010 Molten-Metal plc sold a freehold office building for £872,000. The office building had been purchased on 13 June 2002 for £396,200 (including legal fees). During June 2006 the office building was extended at a cost of £146,000, and during the same month the company spent £48,000 replacing part of the office building roof following a fire. Molten-Metal plc incurred legal fees of £28,400 in connection with the disposal. Indexation factors are as follows:

June 2002 to May 2010	0·269
June 2006 to May 2010	0·126

Quarterly instalment payments

Molten-Metal plc makes quarterly instalment payments in respect of its corporation tax liability. The first three instalment payments for the year ended 31 March 2011 totalled £398,200.

Required:

(a) Calculate Molten-Metal plc's corporation tax liability for the year ended 31 March 2011.

Note: You should ignore any chargeable gain arising from the grant of the lease and also ignore rollover relief. (23 marks)

(b) Calculate the final quarterly instalment payment that will have to be made by Molten-Metal plc for the year ended 31 March 2011, and state when this will be due. (2 marks)

(25 marks)

3 On 15 October 2010 Alphabet Ltd, an unquoted trading company, was taken over by XYZ plc. Prior to the takeover Alphabet Ltd's share capital consisted of 100,000 £1 ordinary shares, and under the terms of the takeover the shareholders received either cash of £6 per share or one £1 ordinary share in XYZ plc for each £1 ordinary share in Alphabet Ltd. The following information is available regarding the four shareholders of Alphabet Ltd:

Aloi

Aloi has been the managing director of Alphabet Ltd since the company's incorporation on 1 January 2000, and she accepted XYZ plc's cash alternative of £6 per share in respect of her shareholding of 60,000 £1 ordinary shares in Alphabet Ltd. Aloi had originally subscribed for 50,000 shares in Alphabet Ltd on 1 January 2000 at their par value, and purchased a further 10,000 shares on 20 May 2002 for £18,600.

On 6 February 2011 Aloi sold an investment property, and this disposal resulted in a chargeable gain of £22,600.

For the tax year 2010–11 Aloi has taxable income of £60,000.

Bon

Bon has been the sales director of Alphabet Ltd since 1 February 2010, having not previously been an employee of the company. She accepted XYZ plc's share alternative of one £1 ordinary share for each of her 25,000 £1 ordinary shares in Alphabet Ltd. Bon had purchased her shareholding on 1 February 2010 for £92,200.

On 4 March 2011 Bon made a gift of 10,000 of her £1 ordinary shares in XYZ plc to her brother. On that date the shares were quoted on the Stock Exchange at £7·10–£7·18. There were no recorded bargains. Holdover relief is not available in respect of this disposal.

For the tax year 2010–11 Bon has taxable income of £55,000.

Cherry

Cherry has never been an employee or a director of Alphabet Ltd. She accepted XYZ plc's cash alternative of £6 per share in respect of her shareholding of 12,000 £1 ordinary shares in Alphabet Ltd. Cherry had purchased her shareholding on 27 July 2003 for £23,900.

For the tax year 2010–11 Cherry has taxable income of £31,000, and during the year she contributed £3,400 (gross) into a personal pension scheme.

Dinah

Dinah has been an employee of Alphabet Ltd since 1 May 2001. She accepted XYZ plc's share alternative of one £1 ordinary share for each of her 3,000 £1 ordinary shares in Alphabet Ltd. Dinah had purchased her shareholding on 20 June 2002 for £4,800.

On 13 November 2010 Dinah sold 1,000 of her £1 ordinary shares in XYZ plc for £6,600.

Dinah died on 5 April 2011, and her remaining 2,000 £1 ordinary shares in XYZ plc were inherited by her daughter. On that date these shares were valued at £15,600.

For the tax year 2010–11 Dinah had taxable income of £12,000.

Required:

(a) State why Bon, Cherry and Dinah did not meet the qualifying conditions for entrepreneurs' relief as regards their shareholdings in Alphabet Ltd. (3 marks)

(b) Calculate the capital gains tax liabilities of Aloi, Bon, Cherry and Dinah for the tax year 2010–11.

Note: In each case, the taxable income is stated after the deduction of the personal allowance. (12 marks)

(15 marks)

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Question 4 begins on page 12.

4 Aston Martyn commenced self-employment on 1 August 2010 providing consultancy services to the motor industry. His sales revenue has been as follows:

		Standard rated	Zero-rated
		£	£
2010	August	2,300	–
	September	6,400	–
	October	20,900	4,800
	November	10,700	–
	December	16,100	–
2011	January	12,800	1,200
	February	4,200	–
	March	31,500	3,300
	April	44,600	6,600

Where applicable, the above figures are stated exclusive of value added tax (VAT). Aston only supplies services and all of his supplies are to VAT registered businesses. He does not offer any discount for prompt payment.

The following is a sample of the new sales invoice that Aston is going to issue to his customers:

SALES INVOICE

Aston Martyn
111 Long Road
London W1 9MG
Telephone 0207 123 3456

Customer: Faster Motors plc
Address: 22 Short Lane
Manchester M1 8MB

Invoice Date 6 June 2011
Tax Point 6 June 2011

Description of services
Business advice

	£
Total price (excluding VAT)	12,000.00
Total price (including VAT)	14,400.00

Aston sometimes receives supplies of standard rated services from VAT registered businesses situated elsewhere within the European Union. As business to business services these are treated as being supplied in the United Kingdom. Aston wants to know how he should account for these services for VAT purposes.

Because of the complexity of the VAT legislation, Aston is concerned that despite his best efforts he will incorrectly treat a standard rated supply as zero-rated, thus understating the amount of VAT payable. He wants to know if such an error will result in a penalty, and if so how much the penalty will be.

Aston understands that he is entitled to use the annual accounting scheme so that he would only have to submit one VAT return each year, but wants to know how using the scheme will otherwise affect him as regards the submission of VAT returns and the payment of VAT.

Required:

(a) Explain from what date Aston Martyn's business was required to be registered for VAT. (3 marks)

(b) State the FOUR additional pieces of information that Aston Martyn will have to show on his new sales invoices in order for them to be valid for VAT purposes. (2 marks)

(c) Explain when and how Aston Martyn should account for VAT in respect of the supplies of services he receives from VAT registered businesses situated elsewhere within the European Union. (2 marks)

(d) Assuming that Aston Martyn incorrectly treats a standard rated supply as zero-rated with the result that the amount of VAT payable is understated, advise him as to the maximum amount of penalty that is likely to be charged by HM Revenue and Customs, and by how much this penalty would be reduced as a result of a subsequent unprompted disclosure. (3 marks)

(e) (i) If Aston Martyn does not use the annual accounting scheme, advise him as to how and when he will have to submit his quarterly VAT returns and pay the related VAT; (2 marks)

(ii) If Aston Martyn uses the annual accounting scheme, advise him as to when he will have to pay VAT and submit his annual VAT return. (3 marks)

(15 marks)

5 Jimmy died on 14 February 2011. He had made the following gifts during his lifetime:

(1) On 2 August 2009 Jimmy made a cash gift of £50,000 to his grandson as a wedding gift when he got married.

(2) On 14 November 2009 Jimmy made a cash gift of £800,000 to a trust. Jimmy paid the inheritance tax arising from this gift.

At the date of his death Jimmy owned the following assets:

(1) His main residence valued at £260,000.

(2) Building society deposits of £515,600.

(3) A life assurance policy on his own life. On 14 February 2011 the policy had an open market value of £182,000, and proceeds of £210,000 were received following Jimmy's death.

The cost of Jimmy's funeral amounted to £5,600.

Under the terms of his will Jimmy left £300,000 to his wife, with the residue of his estate to his daughter.

The nil rate band for the tax year 2009–10 is £325,000.

Required:

(a) Explain why it is important to differentiate between potentially exempt transfers and chargeable lifetime transfers for inheritance tax purposes. (2 marks)

(b) Calculate the inheritance tax that will be payable as a result of Jimmy's death. (12 marks)

(c) State by when the personal representatives must pay the inheritance tax due on Jimmy's estate. (1 mark)

(15 marks)

End of Question Paper