Answers

Section A

1 B

73,000 – 37,200 + 41,700 = £77,500

2 A

3 D

890,000 – 260,000 – 120,000 – 276,000 = £234,000

4 B

9 (6 + 3) x 110 = £990

5 A

82,000 – 22,960 (82,000 x 2% x (15 – 1)) = £59,040

6 C

6,200 + 1,600 – 9,800 = £(2,000)

7 D

166,250 x 3% x 4/12 = £1,662 (period 1 April 2015 to 31 July 2015)

8 C

9 C

28,800 – (21,000 x 9/15) = £16,200

10 C

	£
Employed – Class 1 (28,044 (36,000 – 7,956) at 12%)	3,365
Self-employed – Class 4 (28,044 (36,000 – 7,956) at 9%)	(2,524)
– Class 2 (52 x 2·75)	(143)
	698

11 A

12 D

13 D

14 A

5,940 (4,680 + 1,260) x 100/90 = £6,600

Marks

15 B

2 marks each **30**

Section B *Marks*

1 (a) Ruby – Capital gains tax liability 2014–15

		£	
Chargeable gain on investment property		45,800	
Annual exempt amount		(11,000)	½
		34,800	
Capital gains tax:	14,265 (31,865 – 17,600) at 18%	2,568	1
	20,535 at 28%	5,750	½
		8,318	
			2

(b) Disposal of shareholding in Pola Ltd

		£	
Chargeable gain qualifying for entrepreneurs' relief			
Ordinary shares in Pola Ltd			
Disposal proceeds		61,000	½
Cost		(23,700)	½
		37,300	
Other chargeable gain			
Investment property		45,800	½
Annual exempt amount		(11,000)	1
		34,800	
Capital gains tax:	37,300 at 10%	3,730	1
	34,800 at 28%	9,744	1
		13,474	

Tutorial note: *The chargeable gain of £37,300 qualifying for entrepreneurs' relief reduces Ruby's available basic rate tax band. Therefore, the chargeable gain on the investment property is taxed at the rate of 28%.*

Disposal of shareholding in Aplo plc

	£	
Ordinary shares in Aplo plc		
Disposal proceeds	59,000	½
Cost (40,000 x £2·15)	(86,000)	W ½
Capital loss	(27,000)	
Investment property	45,800	½
Annual exempt amount	(11,000)	½
	7,800	
Capital gains tax: 7,800 at 18%	1,404	½

Working – Cost

(1) The shares in Aplo plc are valued at £2·15 (£2·12 + ¼(£2·24 – £2·12)). 1

8

10

			Marks
2	**(a)**	**(i)** (1) Married couples (and registered civil partnerships) are not chargeable persons for inheritance tax (IHT) purposes, because each spouse (or civil partner) is taxed separately.	1
		(ii) (1) Gifts to spouses (and registered civil partners) are exempt from IHT. This exemption applies both to lifetime gifts and transfers on death.	1
		(2) Any unused nil rate band on a person's death can be transferred to their surviving spouse (or registered civil partner).	1
			2

(b) Marcus – Additional IHT liability arising on death

14 January 2006

No additional IHT is due because the chargeable lifetime transfer (CLT) was made more than seven years before 10 March 2015. 1

3 February 2012

		£	
Gross chargeable transfer (420,000 + 96,250)		516,250	1
IHT liability	35,000 (325,000 – 290,000) at nil%	0	1
	481,250 at 40%	192,500	½
Taper relief reduction (3–4 years) – 20%		(38,500)	1
		154,000	
IHT already paid		(96,250)	½
Additional liability		57,750	

17 March 2012

	£	
Value of shares held before the transfer (100,000 x £12)	1,200,000	½
Value of shares held after the transfer (70,000 x £9)	(630,000)	1
Potentially exempt transfer	570,000	
IHT liability 570,000 at 40%	228,000	½
		7
		10

Tutorial notes:

(1) Although the CLT on 14 January 2006 was made more than seven years prior to Marcus's death, it reduces the nil rate band available against the CLT on 3 February 2012 as it was made within seven years of that transfer.

(2) Although no details are given, there would be no IHT liability in respect of Marcus's estate because this is left entirely to his spouse.

3 Smart Ltd – Value added tax (VAT)

(a)	(1) Smart Ltd was liable to register for VAT from 1 November 2014 because this is the date when it signed the contract valued at £86,000.	1
	(2) The company would therefore have known that its taxable supplies for the following 30-day period would have exceeded £81,000. Registration is required from the start of the 30-day period.	1
	(3) Smart Ltd would have had to notify HM Revenue and Customs by 30 November 2014, being the end of the 30-day period.	1
		3

		Marks
(b)	(1) Smart Ltd will have to file its VAT returns online and pay the VAT which is due electronically.	1
	(2) The deadline for filing the VAT return and paying any VAT which is due is one month and seven days after the end of each quarter (for example, on or before 7 March 2015 for the quarter ended 31 January 2015).	1
		2
(c)	(1) Smart Ltd will have to account for output VAT at the time that payment is received if a customer pays before the basic tax point and before an invoice is issued (for example, if a deposit is paid).	1
	(2) The basic tax point for services is the date when they are completed.	1
		2
(d)	(1) Output VAT will be accounted for 60 days later than at present, because the scheme will result in the tax point becoming the date when payment is received from customers.	1
	(2) The recovery of input VAT on purchase invoices will not be affected because Smart Ltd pays these immediately after they are received.	1
	(3) The scheme will provide automatic relief for an impairment loss should a customer default on the payment of a debt.	1
		3
		10

4 (a) Daniel – Trading income assessment 2014–15

	£	
1 May 2014 to 31 October 2014		
96,000 x ¼ x 6/12	12,000	1½
1 November 2014 to 5 April 2015		
180,000 x ¼ x 5/12	18,750	1½
	30,750	
		3

Tutorial note: *Daniel joined as a partner on 1 May 2014, so the commencement rules apply to him for 2014–15. The basis period is the 11-month period from 1 May 2014 to 5 April 2015.*

(b) Francine – Beneficial loan 2014–15

	£	£	
$\frac{96,000 + (96,000 + 14,000)}{2}$ x 3·25% x 8/12		2,232	1½
Interest paid – 96,000 at 1·5% x 2/12	240		
– 110,000 at 1·5% x 6/12	825		
		(1,065)	1½
Taxable benefit		1,167	
			3

(c) Gregor – Trading loss carried forward

	£	
Trading loss	68,800	
2013–14 – Claim against total income (14,700 + 4,600 + 1,300)	(20,600)	1
2014–15 – Claim against total income	(900)	1
– Claim against chargeable gain (working)	(14,500)	W ½
Loss carried forward	32,800	½

		Marks

Working – Claim against chargeable gain

	Marks
The loss relief claim against the chargeable gain is restricted to £14,500 (chargeable gain of 17,400 less the capital loss brought forward of 2,900).	1
	4
	10

Tutorial note: *Gregor can claim loss relief against his total income (under s.64 ITA 2007) and chargeable gains (under s.261B TCGA 1992) for 2013–14 and 2014–15.*

5 (a) Samson – Income tax computation 2014–15

	£	
Employment income – Salary	112,000	½
Building society interest (9,600/2)	4,800	½
	116,800	
Personal allowance (working)	(1,600)	W
Taxable income	115,200	
£		
31,865 at 20%	6,373	½
83,335 at 40%	33,334	½
115,200		
Income tax liability	39,707	

Working – Personal allowance

Samson's adjusted net income exceeds £100,000, so his personal allowance of £10,000 is reduced to £1,600 (10,000 – 8,400 ((116,800 – 100,000)/2)).	1½

Delilah – Income tax computation 2014–15

	£	
Employment income		
Salary	184,000	½
Charitable payroll deductions (250 x 12)	(3,000)	1
	181,000	
Car benefit (working 1)	22,848	W1
Chauffeur	9,400	½
	213,248	
Professional subscription	(450)	½
Golf club membership	0	½
	212,798	
Trading profit (85,600 (93,600 – 8,000) x 40%)	34,240	1
Building society interest (9,600/2)	4,800	½
	251,838	
Interest paid	(6,200)	1
	245,638	
Personal allowance	0	½
Taxable income	245,638	
£		
37,865 (working 2) at 20%	7,573	W2 ½
118,135 at 40%	47,254	½
89,638 at 45%	40,337	½
245,638		
Income tax liability	95,164	

Tutorial notes:

(1) *The car benefit does not cover the cost of a chauffeur, so this is an additional benefit.*

(2) *The golf club membership is not an allowable deduction despite being used to entertain customers.*

Marks

(3) *The loan interest paid of £6,200 is deductible because the loan was used by Delilah for a qualifying purpose.*

(4) *No personal allowance is available as Delilah's adjusted net income of £239,638 (245,638 – 6,000) exceeds £120,000.*

Working 1 – Car benefit

(1)	The relevant percentage for the car benefit is 34% (12% + 22% (205 – 95 = 110/5)).	1
(2)	The motor car was available throughout 2014–15 (even though Delilah was unable to use it for a period due to her accident), so the benefit is £22,848 (67,200 x 34%).	½

Working 2 – Tax bands

Delilah's basic and higher rate tax bands are extended by £6,000 to £37,865 (31,865 + 6,000) and £156,000 (150,000 + 6,000) in respect of the charitable gift aid donations. ½

13

(b) Transferring the building society deposit account into Delilah's sole name would have saved Samson income tax of £2,880 (4,800 x 60%). 2

15

Tutorial note: *Because of the loss of the personal allowance, Samson's effective marginal rate of income tax is 60%.*

6 (a) (1) An accounting period will normally start immediately after the end of the preceding accounting period. 1

(2) An accounting period will also start when a company commences to trade, or otherwise becomes liable to corporation tax. 1

2

(b) Lucky Ltd – Corporation tax computation for the four-month period ended 31 March 2015

	£	
Operating profit	532,600	
Advertising	0	½
Depreciation	14,700	½
Amortisation	9,000	½
Deduction for lease premium (46,800/12 x 4/12)	(1,300)	1½
Capital allowances (working 1)	(180,291)	W1
Trading profit	374,709	
Interest income	700	½
Taxable total profits	375,409	
Corporation tax (375,409 at 21%)	78,836	½
Marginal relief (working 3)		
1/400 (500,000 – 375,409)	(311)	W3 1
	78,525	

Tutorial note: *The advertising expenditure incurred during September 2014 is pre-trading, and is treated as incurred on 1 December 2014. It is therefore deductible and no adjustment is required.*

Marks

Working 1 – Capital allowances

	£	Main pool £	Special rate pool £	Allowances £	Marks
Additions qualifying for AIA					
Integral feature	141,200				½
AIA – 100%	(141,200)		0	141,200	½
Computer	6,300				½
Office equipment	32,900				½
	39,200				
AIA (working 2) – 100%	(25,467)			25,467	W2 ½
		13,733			
WDA – 18% x 4/12		(824)		824	1
Addition qualifying for FYA					
Motor car	12,800				½
FYA 100%	(12,800)			12,800	½
		0			
WDV carried forward		12,909			
Total allowances				180,291	

Working 2 – Annual investment allowance

The annual investment allowance is reduced to £166,667 (500,000 x 4/12) because Lucky Ltd's accounting period is four months long. 1

Tutorial notes:

(1) The expenditure which is integral to the building is included in the special rate pool.

(2) It is beneficial to claim the annual investment allowance of £166,667 initially against this integral features expenditure, as it would otherwise only qualify for writing down allowance at the rate of 8%.

(3) The computer purchased on 19 August 2014 is pre-trading and is treated as incurred on 1 December 2014.

(4) The motor car has CO_2 emissions up to 95 grams per kilometre, and therefore qualifies for the 100% first year allowance.

Working 3 – Lower and upper limits

(1) Lucky Ltd's accounting period is four months long, so its lower and upper limits are respectively reduced to £100,000 (300,000 x 4/12) and £500,000 (1,500,000 x 4/12). ½

11

(c) (1) Lucky Ltd must retain the records used in preparing its self-assessment corporation tax return until six years after the end of the accounting period, which is 31 March 2021. 1

(2) A failure to retain records could result in a penalty of up to £3,000 per accounting period. However, the maximum penalty will only be charged in serious cases. 1

2

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