Answers

1 (a) (i) Philip Wind – Income tax computation 2010–11

	£
Pensions	9,600
Building society interest (14,880 x 100/80)	18,600
	28,200
Personal allowance	(6,990)
Taxable income	21,210
Income tax	
21,210 at 20%	4,242
Income tax liability	4,242

(1) Philip's adjusted net income exceeds £22,900, so his personal allowance of £9,640 is reduced to £6,990 (9,640 – 2,650 (28,200 – 22,900 = 5,300/2)).

Tutorial note: *The non-savings income exceeds £2,440 (9,600 – 6,990 = 2,610), so the starting rate of 10% is not available.*

(ii) Charles Wind – Income tax computation 2010–11

	£
Trading profit	109,400
Personal allowance	(2,175)
Taxable income	107,225
Income tax	
38,200 at 20%	7,640
69,025 (107,225 – 38,200) at 40%	27,610
107,225	
Income tax liability	35,250

(1) Charles' adjusted net income of £108,600 (109,400 – 800) exceeds £100,000, so his personal allowance of £6,475 is reduced to £2,175 (6,475 – 4,300 (108,600 – 100,000 = 8,600/2)).

(2) The basic rate tax band is extended to £38,200 (37,400 + 800) in respect of the gift aid donation.

(iii) William Wind – Income tax computation 2010–11

	£
Employment income	
Salary	182,700
Pension contributions	(7,300)
	175,400
Car benefit	23,200
Fuel benefit (18,000 x 35%)	6,300
	204,900
Personal allowance	0
Taxable income	204,900
Income tax	
37,400 at 20%	7,480
112,600 at 40%	45,040
54,900 (204,900 – 150,000) at 50%	27,450
204,900	
Income tax liability	79,970

(1) The list price of the motor car is restricted to a maximum of £80,000.

(2) The relevant percentage for the car benefit is 36% (15% + 21% (235 – 130 = 105/5)), but this is restricted to the maximum of 35%.

(3) The motor car was available throughout 2010–11 so the benefit is £23,200 (80,000 x 35% = 28,000 – 4,800).

Tutorial notes:

(1) The fuel benefit is not reduced by the contributions made by William of £3,200 as the full cost of fuel for private journeys has not been reimbursed.

(2) No personal allowance is available as William's adjusted net income of £204,900 exceeds £112,950.

(b) Philip Wind

(1) No national insurance contributions (NIC) are payable

Charles Wind

(1) Class 2 NIC of £125 (52 x 2·40) will have been paid for 2010–11.

(2) Class 4 NIC for 2010–11 will be £3,708 ((43,875 – 5,715 = 38,160 at 8%) + (109,400 – 43,875 = 65,525 at 1%)).

William Wind

(1) Class 1 NIC £5,586 ((43,875 – 5,715 = 38,160 at 11%) + (182,700 – 43,875 = 138,825 at 1%)) will have been paid for 2010–11.

Tutorial note: *Pension contributions are ignored, and benefits are not subject to employee Class 1 NIC.*

(c) (i) (1) Charles' adjusted net income will now be reduced to £100,000 (108,600 – 8,600), so his personal allowance will not be restricted.

(2) The personal pension scheme contribution will also further extend the basic rate tax band by £8,600.

(3) Charles' income tax liability for 2010–11 would therefore have been by reduced by £3,440 calculated as follows:

	£
Personal allowance 4,300 at 40%	1,720
Basic rate band 8,600 at 20% (40% – 20%)	1,720
	3,440

(ii) (1) William and Crown plc should have allocated £4,400 of the contributions towards the fuel for private use, as there will then be no fuel benefit.

(2) This will reduce the contributions for the use of the motor car by £1,200 (4,400 – 3,200).

(3) William's income tax liability for 2010–11 would therefore have been by reduced by £2,550 (6,300 – 1,200 = 5,100 at 50%).

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

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

(3) An accounting period will normally finish 12 months after the beginning of the accounting period or at the end of a company's period of account.

(4) An accounting period will also finish when a company ceases to trade, when it otherwise ceases being liable to corporation tax, or on the commencement of winding up procedures.

(b) Starfish Ltd – Trading loss for the period ended 31 March 2011

	£	£
Loss before taxation		190,000
Depreciation	25,030	
Donation to political party	300	
Donation not paid under gift aid	600	
Donation paid under gift aid	750	
Impairment loss	0	
Legal fees – Internet domain name	0	
– Misleading advertisement	2,020	
– Issue of loan notes	0	
Entertaining customers	3,600	
Entertaining employees	0	
Counselling services	0	
Capital allowances (working)		2,300
	32,300	192,300
	(192,300)	
Trading loss	(160,000)	

Working – Plant and machinery

	Main pool £	Motor car £	Allowances £
WDV brought forward	23,600	13,200	
Addition	2,600		
	26,200		
Proceeds – Main pool	(27,500)		
– Motor car		(9,600)	
Balancing charge	1,300		(1,300)
Balancing allowance		(3,600)	3,600
Total allowances			2,300

(1) Additions are included net of input VAT, so the cost of the laptop is £2,600 (3,120 – 520 (3,120 x 20/120)).

(2) Proceeds are included net of output VAT, so the disposals from the main pool are £27,500 (33,000 (31,200 + 1,800) – 5,500 (33,000 x 20/120)).

Tutorial notes:

(1) The cost of obtaining loan finance, even if abortive, is allowable.

(2) The only exception to the non-deductibility of entertainment expenditure is when it is in respect of employees.

(3) The costs of counselling services for redundant employees are allowable.

(4) The annual investment allowance and writing down allowances are not given for the period in which a trade ceases. Therefore the addition is simply added into the main pool.

(5) Input VAT would not have been recovered in respect of the motor car as it was not used exclusively for business purposes. Therefore, output VAT is not due on the disposal.

(c)

	Period ended 31 March 2007	Year ended 31 March 2008	Year ended 31 March 2009	Year ended 31 March 2010	Period ended 31 December 2010
	£	£	£	£	£
Trading profit	0	64,200	53,900	14,700	49,900
Loss relief (s.45)	0	(12,600)	0	0	0
	0	51,600	53,900	14,700	49,900
Bank interest	600	1,400	1,700	0	0
	600	53,000	55,600	14,700	49,900
Loss relief (s.37)	0	(13,250)	(55,600)	(14,700)	(49,900)
	600	39,750	0	0	0
Gift aid donations	(600)	(1,000)	0	0	0
Taxable total profits	0	38,750	0	0	0

(1) For the year ended 31 March 2008 loss relief is restricted to £13,250 (53,000 x 3/12).

Tutorial notes:

(1) Starfish Ltd would not have made a loss relief claim against total profits for the period ended 31 March 2007 as this would have wasted the £600 of relieved gift aid donations for that period.

(2) The trading loss for the period ended 31 March 2011 can be relieved against total profits for the previous 36 months since it is a terminal loss. Relief is as follows:

	£
Loss	*160,000*
Period ended 31 December 2010	*(49,900)*
Year ended 31 March 2010	*(14,700)*
Year ended 31 March 2009	*(55,600)*
Year ended 31 March 2008	*(13,250)*
Balance unrelieved	*26,550*

(d) (i) Starfish Ltd – VAT return for the quarter ended 31 March 2011

	£	£
Output VAT		
Cash sales revenue (38,520 x 20/120)		6,420
Credit sales revenue (2,000 x 96% x 20%)		384
Sale of inventory (28,800 x 20/120)		4,800
Sale of non-current assets		5,500
Input VAT		
Expenses (69,960 – 4,320 = 65,640 x 20/120)	10,940	
Impairment loss	336	
Purchase of non-current asset	520	
		(11,796)
VAT payable		5,308

Tutorial notes:

(1) The calculation of output VAT on the credit sales revenue takes into account the discount for prompt payment, even for the 40% of customers that did not take it.

(2) Input VAT on business entertainment is not recoverable.

(3) Relief for the impairment loss is available because the claim is made more than six months from the time that payment was due, and the debt has been written off in the company's books.

(ii) (1) A sale of a business as a going concern is outside the scope of VAT, and therefore output VAT would not have been due on the sale of the inventory or the sale of the non-current assets.

(2) Instead of VAT being payable, Starfish Ltd would have been due a refund of £4,992 (5,308 – 4,800 – 5,500).

3 Jorge Jung – Taxable gains computation 2010–11

	£	£
House		
Disposal proceeds	308,000	
Cost	(98,000)	
	210,000	
Principal private residence exemption	(188,000)	
Letting relief exemption	(22,000)	
		0
Copyright		
Disposal proceeds	8,200	
Cost (7,000 x 8/10)	(5,600)	
		2,600
Painting		0
Motor car		0
Land		
Disposal proceeds	92,000	
Cost	(20,240)	
		71,760
Ordinary shares in Futuristic Ltd		
Deemed proceeds	64,800	
Cost	(26,300)	
	38,500	
Gift relief (38,500 – 13,700)	(24,800)	
		13,700
Chargeable gains		88,060
Annual exempt amount		(10,100)
Taxable gains		77,960

(1) The total period of ownership of the house is 210 months, of which 188 months qualify for exemption as follows:

	Exempt months	Chargeable months
Occupied	16	
Travelling overseas	18	
Working overseas	24	
Occupied	11	
Working elsewhere in UK	30	
Travelling overseas (36 – 18)	18	4
Working elsewhere in UK (48 – 30)	18	8
Occupied	17	
Working overseas		10
Final 36 months	36	
	188	22

(2) The principal private residence exemption is therefore £188,000 (210,000 x 188/210).

(3) The letting relief exemption is £22,000 (210,000 x 22 (210 – 188)/210), being the amount of non-exempt gain attributable to the period of letting. This is lower than both £40,000 and the amount of the gain exempt under the principal private residence rules (£188,000).

(4) The cost relating to the two acres of land sold is £20,240 (28,600 x 92,000/130,000 (92,000 + 38,000)).

(5) The consideration paid for the ordinary shares in Futuristic Ltd exceeds the allowable cost by £13,700 (40,000 – 26,300). This amount is immediately chargeable to CGT.

Tutorial notes:

(1) In calculating the principal private residence exemption periods of absence while working overseas, a maximum of four years absence while working elsewhere in the UK and a maximum of three years absence for any reason are treated as deemed occupation. However, the second period working overseas is not a period of deemed occupation as it was not followed by a period of actual occupation.

(2) The copyright is a wasting asset. The cost of £7,000 must therefore be depreciated based on an unexpired life of ten years at the date of acquisition and an unexpired life of eight years at the date of disposal.

(3) The painting is a non-wasting chattel, but is exempt from CGT because the gross sale proceeds were less than £6,000.

(4) Motor cars are exempt from CGT, so the loss of £3,900 (14,600 – 10,700) is not allowable.

(5) The cost of the land is £28,600 which is the value when Jorge's father-in-law died. Jorge would have taken over this cost when his wife transferred the land to him.

(6) Jorge and his sister are connected persons, and therefore the market value of the ordinary shares in Futuristic Ltd is used.

4 (a) Leticia Stone – Furnished holiday letting loss 2010–11

	£	£
Rent receivable (425 x 22)		9,350
Loan interest	12,700	
Repairs (12,200 – 10,900)	1,300	
Mileage allowance	404	
Other expenses	3,770	
Capital allowances (4,600 x 100%)	4,600	
		(22,774)
Furnished holiday letting loss		(13,424)

(1) The mileage that Leticia drove in respect of the property purchase is capital in nature, and therefore does not qualify. Her mileage allowance is therefore £404 (880 + 130 = 1,010 at 40p).

Leticia Stone – Property business loss 2010–11

	£	£
Premium received for sub-lease		45,000
Less: 45,000 x 2% x (5 – 1)		(3,600)
		41,400
Rent receivable – Property 2 (2,160 x 4 x 11/12)		7,920
– Property 3 (580 x 10)		5,800
– Security deposit		0
		55,120
Rent payable (1,360 x 11)	14,960	
Impairment loss	580	
Loan interest	9,100	
Other expenses	36,240	
		(60,880)
		(5,760)
Furnished room (3,170 – 4,840)		(1,670)
Property business loss		(7,430)

Tutorial note: *Leticia would use the normal basis of assessment in respect of the furnished room since this allows a loss to be generated.*

(b) (1) The furnished holiday letting loss can be relieved against Leticia's total income for 2010–11 and/or 2009–10.

(2) The property business loss, and any furnished holiday letting loss not relieved against total income, will be carried forward and relieved against the first available property business profits.

5 (a) (1) The group relief claim by Black Ltd is calculated after deducting brought forward trading losses and gift aid donations.

(2) The maximum potential claim by Black Ltd is therefore £355,600 (396,800 – 57,900 + 21,100 – 4,400).

(3) White Ltd's gift aid donations of £5,600 cannot be surrendered as they can be fully relieved against the company's property business profit of £26,700.

(4) It is not possible to surrender capital losses as part of a group relief claim.

(5) Only current year trading losses can be group relieved, so the maximum potential surrender by White Ltd is £351,300.

(6) The maximum group relief claim is therefore £351,300.

(b) **Brown Ltd – Corporation tax liability for the year ended 31 March 2011**

	Total	UK	First branch	Second branch
	£	£	£	£
Trading profits	212,000	12,000	160,000	40,000
Gift aid donations	(22,000)	(12,000)	0	(10,000)
Taxable total profits	190,000	0	160,000	30,000
Corporation tax at 21%	39,900		33,600	6,300
Double taxation relief	(39,600)		(33,600)	(6,000)
	300		0	300

Tutorial notes:

(1) The balance of the gift aid donations of £10,000 are deducted from the profits of the second overseas branch since it has paid the lower rate of corporation tax of 15% (6,000/40,000 x 100). The first overseas branch has paid corporation tax at the rate of 30% (48,000/160,000 x 100).

(2) The first overseas branch has paid overseas corporation tax of £48,000, but double taxation relief is restricted to the related UK corporation tax of £33,600.

(3) The second overseas branch has paid overseas corporation tax of £6,000, and this is lower than the related UK corporation tax of £6,300.

(c) **Blu Reddy – Inheritance tax computation**

	£
Lifetime transfer 15 January 2011	
Value of shares held before the transfer	
300,000 x £4	1,200,000
Value of shares held after the transfer	
100,000 x £2	(200,000)
Net chargeable transfer	1,000,000
IHT liability 325,000 at nil%	0
675,000 x 20/80	168,750
Gross chargeable transfer	1,168,750
Additional liability arising on death 31 May 2015	
Gross chargeable transfer	1,168,750
IHT liability 325,000 at nil%	0
843,750 at 40%	337,500
Taper relief reduction – 40%	(135,000)
	202,500
IHT already paid	(168,750)
Additional liability	33,750

				Marks	
1	(a)	(i)	**Philip Wind**		
			Pensions	½	
			Building society interest	½	
			Personal allowance	2	
			Income tax	1	
					4
		(ii)	**Charles Wind**		
			Trading profit	½	
			Personal allowance	2	
			Extension of basic rate band	½	
			Income tax	1	
					4
		(iii)	**William Wind**		
			Salary	½	
			Pension contributions	1	
			Car benefit – List price	½	
			– Relevant percentage	1	
			– Contribution	½	
			– Calculation	½	
			Fuel benefit	1	
			Personal allowance	1	
			Income tax	1	
					7
	(b)		**Philip Wind**		
			No NIC	½	
			Charles Wind		
			Class 2 NIC	½	
			Class 4 NIC	1½	
			William Wind		
			Class 1 NIC	1½	
					4
	(c)	(i)	**Charles Wind**		
			Personal allowance	1	
			Basic rate band	1	
			Income tax liability	1	
					3
		(ii)	**William Wind**		
			Allocation	1	
			Contributions for use of motor car	1	
			Income tax liability	1	
					3
					25

			Marks	
2	**(a)**	When an accounting period starts	2	
		When an accounting period finishes	2	
				4
	(b)	Depreciation	½	
		Donations	1½	
		Impairment loss	1	
		Legal fees	1½	
		Entertaining customers	½	
		Entertaining employees	½	
		Counselling services	½	
		P & M – WDV brought forward	1	
		– Addition	1½	
		– Main pool proceeds	2	
		– Motor car proceeds	1	
		– Balancing adjustments	½	
				12
	(c)	Trading profit	½	
		Relief for 2007 loss – Period ended 31 March 2007	½	
		– Carry forward	½	
		Bank interest	½	
		Relief for 2011 loss – Year ended 31 March 2008	1	
		– Other periods	1	
		Gift aid donations	1	
				5
	(d)	**(i)** Output VAT – Cash sales revenue	1½	
		– Credit sales revenue	1½	
		– Inventory	1	
		– Sale of non-current assets	½	
		Input VAT – Expenses	1	
		– Impairment loss	1	
		– Purchase of non-current asset	½	
				7
		(ii) Output VAT not due	1	
		VAT refund	1	
				2
				30

3	House – Proceeds	½
	– Cost	½
	– Period of exemption	3
	– Principal private residence exemption	1
	– Letting relief exemption	1
	Copyright – Proceeds	½
	– Cost	1½
	Painting	½
	Motor car	½
	Land – Proceeds	½
	– Relevant cost	1
	– Apportionment of cost	1
	Ordinary shares – Deemed proceeds	1
	– Cost	½
	– Gift relief	1½
	Annual exempt amount	½
		15

			Marks	
4	(a)	**Furnished holiday letting loss**		
		Rent receivable	½	
		Loan interest	1	
		Repairs	1	
		Mileage allowance	1½	
		Other expenses	½	
		Capital allowances	1	
		Business property loss		
		Lease premium received	1	
		Rent receivable – Property 2	1	
		– Property 3	1	
		– Security deposit	½	
		Rent payable	1	
		Impairment loss	1	
		Loan interest	½	
		Other expenses	½	
		Furnished room	1	
				13
	(b)	Furnished holiday letting loss	1	
		Property business loss	1	
				2
				15
5	(a)	Maximum potential claim	2	
		Gift aid donations	1	
		Capital losses	½	
		Maximum potential surrender	1	
		Maximum claim	½	
				5
	(b)	Trading profits	½	
		Gift aid donations	1½	
		Corporation tax	½	
		Double taxation relief	1½	
				4
	(c)	**Lifetime transfer**		
		Value transferred	2	
		IHT liability	1½	
		Additional liability arising on death		
		Gross chargeable transfer	½	
		IHT liability	½	
		Taper relief	1	
		IHT already paid	½	
				6
				15