ACCA

Paper F6

Taxation
September 2017

Revision Mock A – Answers

To gain maximum benefit, do not refer to these answers until you have completed the revision mock questions and submitted them for marking.

SECTION A ANSWERS

1 D

Tutorial note

Revenue expenditure incurred in the seven years before the commencement of trade is treated as incurred, for tax purposes, on the first day of trading.

The gym subscription is not deductible as it is not incurred wholly and exclusively for the purposes of the trade. For the same reason only 20% of the motoring costs are deductible.

The donation is deductible as it is made wholly and exclusively for trading purposes (promoting the business) is local and reasonable in size, and made to an educational organisation.

2 C

Tutorial note

Employees will not be taxed on accommodation provided free of charge if it qualifies as job related accommodation.

Job related accommodation is that which is provided:

(i) Where it is necessary for the proper performance of the employee's duties (e.g. Sarah).

(ii) Where the accommodation provides for the better performance of the employee's duties and it is customary to be provided with accommodation in that employment.

(iii) Where there is a special threat to the employee's security and he resides in the accommodation as part of special security measures (e.g. Ben).

Gerald does not live in job related accommodation as it does not meet the above conditions. There is no reason why the accommodation is required for Gerald's job.

Harold does not live in job related accommodation as it is not necessary for the proper performance of his duties, and whilst it may enable the better performance of his duties it is not customary for directors to be provided with accommodation near their place of work.

3 A

	£
Class 2 NIC:	
(52 weeks × £2.80)	146
Class 4 NIC:	
(£31,000 – £8,060) × 9%	2,065
Total NICs – 2016/17	2,211

Tutorial note

Class 4 NICs are only charged on taxable trading profits, not on property income.

4 B

Capital gains tax liability – 2016/17

	Not qualifying for ER	Qualifying for ER
	£	£
Sale of business		420,000
Investment property (non-residential property)	100,000	
Less: Annual exempt amount	(11,100)	(0)
Taxable gains	88,900	420,000
Capital gains tax liability		
Qualifying for ER (£420,000 × 10%)		42,000
Not qualifying for ER (£88,900 × 20%)		17,780
		59,780

Tutorial note

1 *The annual exempt amount is set against the chargeable gain from the sale of the investment property as it does not qualify for entrepreneurs' relief and therefore this saves CGT at the higher rate of 20% rather than 10%.*

2 *The gains qualifying for entrepreneurs' relief have to be taxed first and they utilise the remaining BR band of £3,000 (£32,000 – £29,000). Therefore the non-qualifying gain on the commercial investment property is taxed at 20%. Note that if the investment property had been residential property it would have been taxed at the higher rate of 28%.*

5 A

Income tax liability 2016/17

	Total	**Non savings**	**Savings income**
	£	£	£
Taxable income	7,700	2,200	5,500

Income tax	
£	
2,200 × 20% BR (Non savings income)	440
2,800 × 0% SR (Savings income)	0
5,000	
1,000 × 0% SNRB (Savings income)	0
1,700 × 20% BR (Savings income)	340
7,700	
Income tax liability	780

Tutorial note

1 *The starting rate applies to £2,800 of the savings income as it falls within the first £5,000 of taxable* income.

2 *Janice is a basic rate taxpayer as her taxable income (£7,700) is less than £32,000. Her savings nil rate band is therefore £1,000.*

6 C

Mariam's nil rate band was utilised by her lifetime gross chargeable transfer (£171,600) and the estate inherited by her children (£43,680).

This has left £96,720 (£312,000 – £171,600 – £43,680) of her nil band unused.

Therefore the percentage of unused nil rate band is as follows:

(£96,720/£312,000) × 100% = 31%

This unused proportion can be transferred to Fadi and utilised against his death estate:

(£325,000 × 31%) = £100,750

7 D

The VAT actually paid by Sergio will be:

(£2,000 × 90% × 95%) × 20% = £342

Tutorial note

Note that on the invoice the amount of VAT can be shown in a number of ways. This is because at the time the invoice is produced, Sami (the supplier) will not know whether Sergio (the customer) will pay within the 10 day period and take the prompt payment discount.

Normally, the VAT shown on the invoice is based on the amount prior to a prompt payment discount, assuming that the prompt payment discount is not taken. Sami has the option to show full details of the discount on the invoice and include a statement that the customer must reclaim VAT based on the amount actually paid, or alternatively Sami could just issue a credit note if the prompt payment discount is taken.

Regardless of how Sami accounts for the VAT, Sergio will only pay VAT on the amount he actually pays for the goods. Therefore, if the prompt payment discount is taken within 10 days he will pay VAT on the fully discounted amount as above.

If Sergio pays after the 10 day period he must pay VAT of £360 (£2,000 × 90% × 20%) based on the trade discount but not the prompt payment discount.

8 C

Capital gains tax – 2016/17

	£
Proceeds (15,000 shares × £2.33) (W)	34,950
Less: Cost	(10,000)
Chargeable gain	24,950

Working: Valuation of shares

Mid-range price = (211p + 255p) ÷ 2 = 233p per share

Tutorial note

Gift relief is not available as Madalena owns < 5% of the quoted company shares.

The actual proceeds of £11,000 have been substituted with the market value of the shares on the date of the gift. The proceeds were substituted as the disposal is a gift i.e. not at arm's length. In addition to this Madalena and her daughter are connected for the purposes of capital gains tax.

9 B

Tutorial note

A corporation tax return is due within one year of the end of the period of account.

The company can amend the return within 12 months of the filing date.

10 A

Eden does not have close family or accommodation in the UK and she will spend more time in France than in the UK.

She does do substantive work in the UK and she has spent more than 90 days in the UK in both of the previous two tax years. She therefore meets two of the sufficient ties tests – the work and the days in the UK tests.

She is a previous resident and therefore will be treated as UK resident if she is in the UK for 91 days or more.

Tutorial note

Eden is not treated as automatically non-UK resident as she will clearly spend more than 16 days in the UK and she has been UK resident during the previous three tax years.

Eden is not treated as automatically UK resident, assuming she does not spend more than 183 days in the UK, as her only home is not in the UK and she is not working full time there.

11 B

Tutorial note

The disposal of shares will result in a chargeable gain, although entrepreneurs' relief may be available if the conditions are met. Note that shares are not chattels, therefore the fact that the sale proceeds and cost are less than £6,000 is not relevant.

A speedboat is a wasting chattel and is therefore exempt.

A holiday apartment is not exempt as it is not his main residence.

An antique statue is a chattel but is not wasting. The 5/3 rule would apply here as the asset would be sold for more than £6,000 and was bought for less than £6,000, however the gain is still chargeable.

12 D

Tutorial note

A chargeable accounting period does not start when a company is first incorporated.

All the other answers will trigger the start of a chargeable accounting period.

13 D

Tax adjusted trading profit – y/e 30 September 2016

	£
Trading profit per the accounts	196,820
Staff entertaining	0
Political donation	800
Leased car restriction (£4,000 × 15%)	600
Tax adjusted trading profit	198,220

Tutorial note

Staff entertaining is allowable, even if it is only for one group of employees.

Political donations are disallowed.

Where the CO_2 emissions of a leased car exceed 130 g/km, 15% of the lease charges are disallowed.

Remember that there are no private use adjustments for a company. The lease payments are therefore allowed in full, irrespective of any private use, subject to the 15% restriction.

14 C

	£
Annual allowance	40,000
Less: 50% x (£187,200 - £150,000) (W)	(18,600)
Reduced AA	21,400

Working: Adjusted income

	£
Net income	172,000
Plus: Employee's contributions to occupational pension scheme	8,000
Total pension contributions by employer (to any scheme)	7,200
Adjusted income	187,200

Tutorial note

The annual allowance is gradually reduced for individuals with high income.

If adjusted income exceeds £150,000 the annual allowance is reduced by 50% of the excess. The minimum that the annual allowance can be reduced to is £10,000.

Adjusted income is net income plus any employee contributions to occupational pension schemes (these will have been deducted in calculating net income) plus any employer contributions to either occupational or personal pension schemes.

15 B

Tutorial note

An error which is the result of a genuine mistake will result in no penalty.

*When an **unprompted** disclosure of a **careless** error is made the penalty can be reduced to £Nil.*

SECTION B ANSWERS

16 A

Painting

	£
Deemed proceeds	24,000
Less: Deemed cost (Note)	
£15,000 × (£24,000/(£24,000 + £20,000))	(8,182)
Unindexed gain	15,818
Less : Indexation to February 2017	
(265.5 – 174.2)/174.2 = 0.524 × £8,182	(4,287)
Chargeable gain	11,531

Tutorial note

Where an asset is damaged, compensation is received and the proceeds are not used to restore the asset, there is a part disposal of the asset for capital gains purposes.

The deemed cost is calculated using A/(A+B) where:

A = Insurance proceeds received
B = Value of asset after damage

The date of disposal is the date that the compensation is received not the date that the asset is damaged. Indexation allowance is therefore available up to the date compensation is received.

17 C

Albatross plc shares

	£
Proceeds (August 2016)	42,500
Less: Cost (below)	(17,500)
Chargeable gain	25,000

Share pool		**Number**	**Cost**
			£
1 August 2016	Purchase	6,000	18,600
17 August 2016	Purchase	2,000	9,400
		8,000	28,000
29 August 2016	Disposal	(5,000)	
	(£28,000 × 5,000/8,000)		(17,500)
		3,000	10,500

Tutorial note

The shares are bought and sold in the same month therefore you do not need to consider indexation allowance.

Remember to calculate the average cost of the shares (as shown above in the share pool) then multiply it by the number of shares being sold to calculate the cost for the gains computation.

18 D

Crane

	£
Proceeds	80,000
Less: Cost	(37,000)
Unindexed gain	43,000
Less : Indexation to December 2016	
(264.7 – 181.3)/181.3 = 0.460 × £37,000	(17,020)
Chargeable gain	25,980

Tutorial note

The crane is a wasting chattel, but is also plant and machinery used for the purposes of the trade, so capital allowances can be claimed on the expenditure. It is therefore not an exempt disposal. An indexed gain is calculated as normal.

Be careful to multiply the indexation factor by the cost NOT the unindexed gain, this is a common error.

19 B

Tutorial note

The repairs immediately after the purchase are revenue expenditure as the building was in a usable state. If the building had not been in a usable state the repairs would have been treated as capital expenditure as the purchase price of the building would have been lower than a building ready for use.

The cost of replacing the roof is also revenue expenditure being a repair to the asset (i.e. the building), rather than to either enhance it or replace it.

20 D

Tutorial note

The replacement asset must be used in the trade, therefore the investment property is not a qualifying asset.

The fixed plant and machinery and the 57 year lease are used in the trade and are qualifying assets for rollover relief purposes. They are, however, depreciating qualifying assets.

The only difference when investing in a depreciating asset is that the base cost of the replacement asset is not reduced and there is a maximum deferral period.

The deferred gain is frozen until the earliest of three dates:

- *10 years from the date of acquisition of the depreciating asset*
- *the date the depreciating asset is no longer used in the trade*
- *the date of disposal of the depreciating asset.*

21 B

Lifetime IHT – CLT – 1.11.2010

	£	£
Transfer of value (after exemptions)		415,000
NRB at date of gift – 2010/11	325,000	
Less: GCTs < 7 years before gift (1.11.2003 – 1.11.2010)	(275,000)	
NRB available		(50,000)
Taxable amount		365,000
IHT payable @ 25%		91,250

Tutorial note

The transfer value (after exemptions) was provided in the question, along with the nil rate band for the tax year of the gift.

The CLT on May 2002 which fully used the available nil rate band in 2008/09 of £312,000 is outside the seven year accumulation period and therefore does not reduce the nil rate band available to the CLT on 1 November 2010.

The IHT was payable by the donor and was therefore payable @ 25%.

The gross chargeable transfer to carry forward = (£415,000 + £91,250) = £506,250.

22 A

Death estate – Date of death 31 December 2016

	£
Estate value	580,000
Less: Exempt legacy to spouse	(130,000)
Gross chargeable estate	450,000
NRB at date of death – 2016/17 is fully utilised (Note)	
NRB available	(0)
Taxable amount	450,000
IHT payable @ 40%	180,000

Tutorial note

The verbal promise made by Paul to pay his nephew's school fees is not legally enforceable and as such cannot be deducted from the estate.

Paul left the holiday cottage to his spouse, this is an exempt bequest, hence the value has been deducted to calculate the gross chargeable estate.

You did not need to know the lifetime IHT payable on the trust to identify that the NRB was fully utilised. The net gift was £415,000, higher than the NRB in the year of death.

23 C

Death tax – CLT – 3 June 2008 (assuming date of death is 31.12.2014)

	£
Gross chargeable amount	275,000
Less: NRB available (given in question)	(0)
Taxable amount	275,000
IHT payable @ 40%	110,000
Less: Taper relief	
(3.6.2008 – 31.12.2014) (6 – 7 years) (80%)	(88,000)
	22,000
Less: Lifetime tax paid (£55,000 restricted)	(22,000)
IHT payable on death	0

> ***Tutorial note***
>
> *The gross chargeable amount is provided in the question which, by definition, means that any available annual exemptions have already been taken into account. The question also states that the NRB had been fully utilised.*
>
> *Taper relief is available to reduce IHT payable on death for gifts made > 3 years prior to the donor's death.*
>
> *Lifetime tax is always deducted last in the computation, however it can never create a repayment (i.e. the deduction must be restricted if necessary to ensure it doesn't take IHT payable on death below £Nil).*

24 C

> ***Tutorial note***
>
> *The CLT was made between 1 October and 5 April during the tax year, the payment is due 6 months after the end of the month of the gift (i.e. 31 May 2011).*

25 D

> ***Tutorial note***
>
> *The gift to Paul's niece will be eligible for the £1,000 marriage exemption as she falls within the 'anyone else' category.*

26 C

Tutorial note

The order date has no impact on the tax point of the transaction.

The basic tax point (BTP) is the date on which the goods were despatched to the customer (i.e. 20 June 2016).

The BTP is overridden by an actual tax point (ATP) if either of the following happens prior to the date of the BTP:

– *a payment is received, or*
– *an invoice is raised.*

In this case neither of these situations applies.

We must then check to see if an invoice was raised in the 14 days following the BTP as, if this is the case, the invoice date will become the ATP.

An invoice was raised on 1 July 2016, this is within 14 days of the BTP, and therefore becomes the ATP.

27 D

Output tax	£
VAT on fuel scale charge (£338 × 1/6)	56
Input tax	
VAT recovered on fuel in full (£600 × 1/6)	100

Tutorial note

Where output VAT is adjusted to reflect the private use of fuel, then input VAT is recoverable in full on all fuel including that used for private journeys.

VAT is then calculated on a fuel scale charge provided by HMRC based upon the CO_2 emissions of the car.

The VAT fuel scale charge is inclusive of VAT; accordingly the VAT included in the charge must be calculated as (20/120) or (1/6).

This amount is then included as output tax in the trader's VAT return, thus effectively offsetting the input VAT reclaimed which relates to private use.

28 A

Maximum WDA on car	
(£12,500 × 8%)	£1,000

Tutorial note

Input VAT is not recoverable on the car as there is an element of private use.

Accordingly, capital allowances can be claimed on the VAT inclusive amount as this is the cost to the business. Note that the question states that the £12,500 cost given is the VAT inclusive amount.

There are no private asset adjustments in the capital allowances computation of a company. The company can therefore claim allowances in full.

The director will be assessed for the private use of the company car in his personal income tax computation as a car benefit.

29 B

Recoverable VAT = on the staff dinner dance only	
(£1,000 × 1/6)	£167

Tutorial note

VAT in respect of entertaining UK customers is not recoverable.

Make sure you check whether the figures are provided exclusive or inclusive of VAT in the question.

30 B

Tutorial note

A late VAT return will result in a surcharge period of 12 months.

As Reach Out Ltd was already in a surcharge period this is its first default within the period. The default surcharge will therefore be 2% of the VAT outstanding, not 5%.

SECTION C ANSWERS

31 RABBIT RUN LTD

Key answer tips

Parts (a) and (b) have a less familiar style in that they require advice and explanations (without doing full corporation tax calculations). Part (a) considers the maximum possible surrender of losses within a group for 3 marks, and part (b) considers the maximum capital allowances that can be claimed.

The answers show that what the examining team expected was not difficult and only applies mainstream knowledge, however in an unfamiliar style. These parts also involve concentrating on specific aspects of the calculations, which may cause some problems if unprepared.

Part (c) is also unusual in that students may not have come across this style of question before. It requires advice about the increased tax cost to both the company and the individual should they increase the remuneration of a higher paid employee.

Again, the calculations are not difficult but it is necessary to consider the impact of transactions on tax and "think in the margin". All that is required is the additional tax chargeable, not the total tax cost.

(a) Maximum amount of group relief – year ended 31 March 2017

Tutor's top tips

Hamster Cage Ltd has been a subsidiary throughout the whole of Rabbit Run Ltd's year ended 31 March 2017; however, after an initial three month period, Hamster Cage Ltd has a June year end, not March.

As a result, time apportionment of the profits and losses is required to calculate the maximum group relief in each corresponding accounting period.

It was not necessary to consider the optimum use of the loss here, as the requirement asked only for the ***maximum*** *amount of group relief which could be claimed.*

Any time spent considering how the loss should be used would be wasted, and would not score any marks. You are also not asked to discuss whether or why group relief is available in this question and no marks would be awarded for this.

- For the three months ended 30 June 2016, the maximum group relief is:

  Lower of

  (i) Available profits of Hamster Cage Ltd = £28,000

  (ii) Available loss of Rabbit Run Ltd for the corresponding period

  = (£180,000 × 3/12) = £45,000

- For the year ended 30 June 2017, the maximum group relief is calculated for the corresponding period of 9 months from 1 July 2016 to 31 March 2017 as:

  Lower of

  (i) Available profits of Hamster Cage Ltd = (£224,000 × 9/12) = £168,000

  (ii) Available loss of Rabbit Run Ltd = (£180,000 × 9/12) = £135,000

- The total maximum group relief that Rabbit Run Ltd can surrender, and therefore Hamster Cage Ltd can claim, in respect of the £180,000 loss in the year ended 31 March 2017 is:

  (£28,000 + £135,000) = £163,000

Tutorial note

Trading losses do not need to be set against the profits of the company in which they arise before they can be group relieved.

Note that the question asks for the maximum group relief and requires you to assume that Rabbit Run Ltd does not offset the trading loss against its own property business profits first.

(b) Maximum amount of capital allowances claim

Tutor's top tips

Two alternative purchases are to be considered here and 4 marks are available in total. Make sure an equal amount is spent on each part and try not to overrun on this part.

Remember that the requirement is to explain and not to just calculate a number.

Equipment

- The first £200,000 of expenditure will qualify for the annual investment allowance (AIA) at the rate of 100%, whilst the balance of expenditure will qualify for the writing down allowance (WDA) at the rate of 18%.

- The maximum capital allowances claim will therefore be:
  (£200,000 + (£100,000 at 18%)) = £218,000.

Ventilation system

- The AIA will be available in the same way as for the equipment. However, the ventilation system will be integral to the factory and is therefore classified as 'special rate pool' expenditure.

  The balance of expenditure will therefore only qualify for a writing down allowance (WDA) of 8%.

- The maximum capital allowances claim will therefore be:

  (£200,000 + (£100,000 at 8%)) = £208,000.

Tutorial note

Where a company forms part of a corporation tax group, only one AIA is available for the group as a whole. The group can decide which companies within the group will utilise the AIA.

However, this question asks for the maximum allowances available to Rabbit Run Ltd (i.e. assume that all allowances will go to them) and it states that the subsidiary has no capital purchases and therefore all of the AIA is given to Rabbit Run Ltd.

(c) Additional amount of income tax and national Insurance

Tutor's top tips

The managing director is clearly a higher rate taxpayer already and will remain so after the bonus payment. Therefore income tax will be paid at the marginal rate of 40% and class 1 employee's NICs at the rate of 2%. The employer will also need to pay class 1 employer's NICs.

Calculations can therefore be performed 'in the margin' (i.e. calculating the additional tax due at the marginal rate), rather than working the full income tax computation.

If the calculations are done by carrying out full income tax computations you will get the correct answers, however this would be very time consuming and far too much work for the 3 marks available.

It is important to use the mark allocation to guide you in terms of the time and work necessary to answer the question.

- The managing director's additional income tax liability for the tax year 2016/17 will be:

  (£40,000 at 40%) = £16,000

- The additional employee's class 1 NIC will be:

  (£40,000 at 2%) = £800

- The additional employer's class 1 NIC will be:

  (£40,000 at 13·8%) = £5,520

Tutorial note

As the managing director clearly has taxable income in excess of £32,000, any additional income will be taxed to income tax at 40%.

Additional class 1 employee's NICs payable by the managing director will be payable at 2% as the upper limit for NIC of £43,000 is also clearly exceeded.

Employers pay 13.8% class 1 employer's NICs on all of an employee's cash earnings in excess of £8,112, with no upper limit. Note that the employment allowance of £3,000 will have already been claimed against the total class 1 employer's NICs for the company.

The MD has no other income in the tax year 2016/17, therefore his total taxable income will not exceed £100,000 and there will be no restriction of the personal allowance.

Marking scheme

		Marks
(a)	Period ended 30 June 2016	1.5
	Year ended 30 June 2017	1.5
		3.0
(b)	Equipment	2.0
	Ventilation system	2.0
		4.0
(c)	Income tax	1.0
	Employee's NIC	1.0
	Employer's NIC	1.0
		3.0
Total		**10.0**

32 CHATRU

Key answer tips

A question in two parts but the parts are not independent.

In part (a)(i) and (ii) you have to apply the opening and closing year rules to calculate the trading income assessments.

The 2016/17 assessment is then relevant to Chatru's income in part (b), which requires some thought into tax planning advice for a husband and wife.

Typically the solution is to recommend the transfer of some assets generating income from the spouse paying tax at a high rate to the spouse paying tax at a lower rate. However, it is not always that simple. Significant amounts of tax can also be saved by ensuring that the couple maximise use of the savings and dividend nil rate bands.

Tutor's top tips

In part (a)(i), be sure to show each tax year; describe the basis of assessment; apply the appropriate rule to the question and give the appropriate dates; and then show the working to calculate the number.

Just calculating the number will not gain full marks for this type of question.

(a) (i) Assessable income – Cessation date 31 March 2017

Tax year	**Basis of assessment**		£
2012/13	Actual basis (1.11.12 – 5.4.13)		
	£40,500 × 5/18		11,250
2013/14	Actual basis (6.4.13 – 5.4.14)		
	£40,500 × 12/18		27,000
2014/15	12 months ended 30.4.14		
	£40,500 × 12/18		27,000
2015/16	CYB (y/e 30.4.15)		12,000
2016/17	Year of cessation – 1.5.15 to 31.3.17		
	(£24,000 + £35,000)	59,000	
	Less: Overlap profits (1.5.13 – 5.4.14)		
	£40,500 × 11/18	(24,750)	
			34,250
Total assessable income			111,500

Tutorial note

Check that total assessments = total tax adjusted profits of the business:

(£40,500 + £12,000 + £24,000 + £35,000) = £111,500

(ii) Assessable income – Cessation date 30 April 2017

Tutor's top tips

You need to show clearly that the effect of trading another month will be that there is another tax year of assessment, and that therefore only the final assessments will be affected.

Make sure that you explain the effect in words as well as in the numbers.

Tax year	**Basis of assessment**	£	£
2012/13 – 2015/16			(as above)
2016/17	CYB (y/e 30.4.16)		24,000
2017/18	Year of cessation – 1.5.16 to 30.4.17		
	(£35,000 + £4,200)	39,200	
	Less: Overlap profits (as above)	(24,750)	
			14,450
			115,700

Tutorial note

Check that total assessments = total tax adjusted profits of the business:

(£111,500 + £4,200) = £115,700

Assessments under the current year basis ensure that all profits earned are assessed. If Chatru continues to trade for one extra month, earning an additional £4,200 his total assessments will increase by £4,200.

Explanation of income tax benefits

By trading for one extra month, the amount assessed in the tax year 2016/17 is reduced from £34,250 to £24,000.

This may provide a significant income tax benefit as Chatru now has two personal allowances available to offset against trading profits as they arise in separate tax years. In addition to this, all profits now fall within the basic rate band.

Another benefit of postponing cessation is the delay in payment of tax on the trading profits from 1 May 2016 onwards by one year.

Tutorial note

The taxpayer can choose his date of cessation, provided the business is solvent. The choice of date is important as there is an opportunity to alter the timing of assessments over the final years.

This may change the rate of tax at which the profits are assessed and the due date of payment.

In practice this is an important tax planning consideration in the closing years of a business.

Tutor's top tips

Strictly there is no need to provide proof that total profits earned equals total profits assessed but it is good practice and will uncover any arithmetic mistakes for you to go back and correct.

However, only go back and correct an answer if you have time. It is always better to move on and finish the question.

(b) (i) Taxable income computation – 2016/17

Tutor's top tips

A straightforward taxable income computation is required in part (b)(i) and the trading income figure in the income tax computation comes from part (a)(i).

Remember that even if you got the earlier part wrong, you can get all of the marks in part (b)(i) for following through your computation in the correct way using your trading income figure – so keep going!

You have only been asked to calculate taxable income and there are only 3 marks available here so don't waste time by calculating an income tax liability.

	£
Trading income (part (a)(i))	34,250
Property business income (£20,000 × 50%)	10,000
ISA interest (exempt)	0
Dividends	13,000
Total income	57,250
Less: PA	(11,000)
Taxable income	46,250

Tutorial note

Income from assets jointly held by husband and wife is split 50:50 between the spouses unless they have elected to have the income taxed in relation to their actual ownership proportions.

The question states that Chatru and Sandra have not made any elections in relation to their income. The rental income will therefore be split equally between them for tax purposes.

(ii) Chatru and Sandra – Ways to reduce joint income tax liability

Tutor's top tips

The question only required two ways in which the couple could have saved tax. The full answer below is produced for tutorial purposes.

Chatru was a higher rate taxpayer in the tax year 2016/17 having fully utilised his personal allowance and basic rate band. He has a £500 savings nil rate band which has not been utilised. His dividend income exceeds the £5,000 nil rate band such that he pays tax at 32.5% of part of this income.

Sandra is an additional rate taxpayer in the tax year 2016/17 as her total income is £190,500 (£180,000 + £10,000 + £500). She has taxable bank interest which will be taxed at 45% as she is not entitled to a savings nil rate band.

Chatru and Sandra should therefore have considered the following to reduce their income tax liability:

- Electing for the rental income from the land to be taxed in accordance with their actual ownership proportions of 75:25.

  Sandra's rental income is currently taxed at the additional rate of 45%. If it is split in accordance with actual ownership £5,000 of income will be transferred from Sandra to Chatru who will pay tax on it at 40%.

- Transferring Sandra's interest generating savings to Chatru will save tax at 45% as the interest will be taxed at 0% as Chatru, being a higher rate taxpayer, has a £500 savings nil rate band.
- Transferring dividend generating investments from Chatru to Sandra so that Sandra receives dividend income of £5,000 to utilise her dividend nil rate band. This will save tax of £1,625 (£5,000 × 32.5%).

Tutorial note

It is assumed that as both Chatru and Sandra have income from ISAs they have utilised their maximum ISA investment limits. If this were not the case transferring income generating investments into ISAs would also save the couple tax.

Note that the availability of the savings nil rate band to basic rate and higher rate taxpayers and the availability of the dividend nil rate band to all taxpayers has made tax planning for married couples and civil partnerships more complicated.

You therefore need to think not just about transferring income from a partner with a high marginal rate of tax to the other partner paying a lower rate of tax but also about the type of income that they each generate and whether the couple is maximising use of the savings and dividend nil rate bands.

Marking scheme

			Marks
(a)	(i)	2012/13 assessment	1.0
		2013/14 assessment	1.0
		2014/15 assessment	1.0
		2015/16 assessment	0.5
		2016/17 assessment (including overlap)	2.5
			6.0
	(ii)	2012/13 to 2015/16 assessments (as in part (a)(i))	0.5
		2016/17 assessment	0.5
		2017/18 assessment	1.0
		Income tax benefit of additional month trading	1.0
			3.0
(b)	(i)	Property business income	0.5
		Trading income & dividend income	0.5
		ISA interest exempt	0.5
		Personal allowance	0.5
			2.0
	(ii)	Chatru HR taxpayer, not using savings NRB	1.0
		Sandra – additional rate taxpayer, not entitled to savings NRB	1.0
		Two possible ways to reduce IT liability (one mark each)	2.0
			4.0
Total			**15.0**

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Key answer tips

Part (a) tests the residence rules for a company and should be easy marks to gain.

Part (b) tests the computation of property business profits; however the information is presented in a slightly unusual format with an existing property income calculation which contains a number of errors.

Try not to allow the presentation to put you off; the tax calculations here are generally quite straightforward.

Part (c) is then a straightforward corporation tax computation.

Remember to include your property income figure from part (b), but you will not be penalised here if it is not correct.

(a) Residency status

- Companies that are incorporated overseas are only treated as being resident in the UK if their central management and control is exercised in the UK.
- Since the directors are UK based and hold their board meetings in the UK, this would indicate that Instrumental Ltd is managed and controlled from the UK, and therefore it is resident in the UK.
- If the directors were to be based overseas and to hold their board meetings overseas, the company would probably be treated as resident overseas since the central management and control would then be exercised outside the UK.

(b) Property business income – year ended 31 March 2017

	£	£	**Per question**
Rent – Property 1 (£2,500 × 4 × 7/12)	5,833		
– Property 2 (£650 × 9) + £700	6,550		
– Property 3 (£2,000 × 9/12)	1,500		
– Property 4 (£500 × 9)	4,500		*
		18,383	
Lease premium – Property 3 (W)		36,900	
		55,283	
Allowable deductions:			
Irrecoverable debt – Property 2	650		
Decoration – Property 1	2,500		*
Advertising/fees (£1,500 + £250)	1,750		
Council tax/water rates (£1,200 + £400)	1,600		*
Repairs – Property 2 only	500		
Replacement furniture relief – Property 1 (£600 – £350 + £50) (Note)	300		
		(7,300)	
Property business income		47,983	

Tutorial note

1 *Rental income is taxed on an accruals basis, not on a paid basis as shown in the managing director's computation. The date that rent is received is irrelevant.*

2 *Only the property income element of the lease premium is taxable on Instrumental Ltd (see working below).*

3 *The rent on property two which was never recovered can be deducted as an irrecoverable debt.*

4 *Replacement furniture relief is available in respect of the washer/dryer as it is a domestic item provided in a furnished residential property. The relief is restricted to the cost of a modern equivalent of the old asset i.e. £350 which is also reduced by the proceeds received on the sale of the old asset. The relief is £300 (£350 - £50).*

5 *Advertising fees incurred to find a new tenant are allowable.*

6 *The invoice received in April for work carried out in March 2017 should be accrued for in the accounts to 31 March 2017.*

7 *Expenditure incurred on making the property inhabitable is capital and therefore the repairs to the roof and the new fittings in property four are not deductible.*

Working: Property 3

	£
Premium received	45,000
Les: 2% × £45,000 × (10 – 1)	(8,100)
Assessment on premium received (Note)	36,900

Tutorial note

Alternative calculation of the assessment on the sub lease:

£45,000 × (51 – 10)/50 = £36,900

(c) Corporation tax computation – year ended 31 March 2017

	£
Property business profit (part (b))	47,983
Loan interest receivable (£180,000 + £16,000)	196,000
Taxable total profits	243,983
Less: QCD relief	(1,500)
Taxable total profits	242,483
Corporation tax liability (£242,483 × 20%)	48,497

Tutorial note

Loan interest income is assessed on the amount receivable in respect of the accounting period. Dividends are exempt and therefore excluded from the calculation of taxable income.

Payment date

As Instrumental Ltd has one 51% related company, the profit threshold is divided by two to determine the company's payment dates.

Profit threshold (£1,500,000 ÷ 2)	£750,000

This is compared to the company's augmented profits.

	£
TTP	242,483
Plus: Dividends received from non-group companies	43,000
Augmented profits	285,483

As augmented profits fall below the profit threshold, quarterly instalments are not required.

Instrumental Ltd must therefore pay its corporation tax liability by 1 January 2018 (i.e. nine months and 1 day following the end of the chargeable accounting period).

Marking scheme

		Marks
(a)	Not incorporated in UK	1.0
	Depends on central management and control	1.0
	Non-resident if central management and control overseas	1.0
		3.0
(b)	Rental income – Property 1	0.5
	– Property 2	0.5
	– Property 3	0.5
	Lease premium	1.5
	Irrecoverable debt	0.5
	Advertising	0.5
	Central heating repairs allowed	0.5
	Roof repairs & new fittings disallowed	1.0
	Replacement furniture relief	1.5
	Remaining figures as per question	1.0
		8.0
(c)	Loan interest receivable	1.0
	QCD relief	0.5
	Property income	0.5
	Calculation of profit threshold/explanation CT instalments not required	1.0
	Payment date	1.0
		4.0
Total		**15.0**