

Taxation II
Northern Ireland
2nd Year Examination

May 2011

Paper, Solutions & Examiner's Report



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Accounting Technicians Ireland

2nd Year Examination: Summer 2011 Paper

Paper : TAXATION II (Northern Ireland)

Wednesday 18th May 2011 – 2.30 p.m. to 5.30 p.m.

INSTRUCTIONS TO CANDIDATES

PLEASE READ CAREFULLY

For candidates answering in accordance with the law and practice of Northern Ireland.

Candidates should answer the paper in accordance with the appropriate provisions up to and including the Finance Act, 2010. The provisions of the Finance Act, 2011 should be ignored.

Allowances and rates of taxation, to be used by candidates, are set out in a separate booklet supplied with the examination paper.

Answer ALL THREE QUESTIONS in Section A, and ANY TWO of the FOUR questions in Section B. If more than TWO questions are answered in Section B, then only the first two questions, in the order filed, will be corrected.

Candidates should allocate their time carefully.

All workings should be shown.

All figures should be labelled as appropriate e.g. £s, units, etc.

Answers should be illustrated with examples, where appropriate.

Question 1 begins on Page 2 overleaf.

The following insert is included with this paper.

- **Tax Reference Material (NI)**
- **VAT 100 Form (QUESTION 2)**
- **Multiple Choice Answer Sheet (QUESTION 7)**

SECTION A**Answer QUESTION 1 and QUESTION 2 and QUESTION 3 (Compulsory) in this Section****QUESTION 1 (Compulsory)**

Tictock Ltd has been operating for some years selling specialist high value clocks for commercial use. The Income statement for the year ended 31.3.2011 shows the following:-

	£	£
Sales.....		864,000
Less cost of sales.....		<u>(380,000)</u>
Gross Profit.....		484,000
Add Interest Receivable (note 1)		60,000
Rental Income Receivable (note 2)		<u>72,000</u>
		616,000
Less: Expenses		
Wages and Salaries.....	84,000	
Administration expenses (note 3)	16,800	
Rates & Insurance.....	15,600	
Postage & Stationery.....	12,000	
Advertising (note 4)	21,600	
Travel & Entertaining (note 5)	24,000	
Discount Allowed.....	13,200	
Depreciation	49,200	
Profit on sale of non current assets (note 6)	(60,000)	
Bad Debts written off.....	<u>14,400</u>	
		<u>(190,800)</u>
Net Profit		<u>425,200</u>

Notes:

- Interest receivable is all considered to be non trade.
- Rental Income receivable is net of all allowable expenses for tax purposes.
- Administration expenses include a general 2% provision for bad debts amounting to £2,000.
- Advertising costs include:-

	£
Gifts of 1000 company logoed memory sticks	9,000
Christmas luxury food hampers with company logo to the top 100 customers	5,000

QUESTION 1 (Cont'd)

5. Travel & Entertaining costs is made up of:- £
- | | |
|--|---------------|
| Employees travel expenses | 12,000 |
| Employees subsistence allowances | 6,000 |
| Director Speeding Fine | 500 |
| Entertaining customers..... | 4,500 |
| Staff..... | <u>1,000</u> |
| | <u>24,000</u> |
6. Profit on sale of non- current assets resulted in chargeable gains of £40,000
7. Capital purchases in the year have been:-
- | | |
|---|--------|
| 21 June 2010 Plant & Machinery | 28,800 |
| 4 September 2010 New Central Heating Unit | 15,200 |
| 14 February 2011 Car CO ₂ emission 100g/km | 22,000 |

Required:

- a) Calculate the Corporation Tax payable by the company for year ended 31 March 2011
- b) Outline to the company the implications of:
- 1) Submitting their tax return late.
 - 2) Failing to maintain records for the appropriate time.
 - 3) For the period of A/C to 31 March 2011 how long must they retain their records.

Total 20 Marks

QUESTION 2 (Compulsory)

WINGSPAN Ltd is a company resident in the UK which operates a business selling aeronautical parts. The company is registered for VAT in the UK and accounts for VAT in the normal manner. The following transactions took place in the quarter ended 31 December 2010.

	£
OUTPUTS	
Sales in the UK (excluding VAT).....	630,600
Sales in France (customers VAT registered in France)	208,806
Sales in ROI (customers VAT registered n ROI)	17,500
Sales in ROI (not VAT registered)	90,000
Sales in Canada.....	30,560
 INPUTS (Figures include VAT where applicable)	
Purchases of materials UK suppliers.....	238,640
Purchases of material from Germany	133,420
Purchase of machinery	168,000
Salaries & Wages.....	110,500
Rent of premises (note 1)	12,000
Telephone.....	860
Electricity.....	1,600
Advertising.....	20,000
Repairs & Maintenance.....	8,667
Motor Expenses : Repairs etc.....	6,240
Diesel for co vehicles (note 2)	3,075

Note 1 VAT at standard rate has been paid on the rent of the premises.

Note 2 Diesel for company vehicles includes diesel purchased for cars used by company directors. These cars are:

- 1) Mercedes CLK CO₂ emissions 205g/km.
- 2) BMW 320D CO₂ emissions 230g/km.

Required

1. Calculate the VAT payable/reclaimable by WINGSPAN Ltd for quarter ended 31 December 2010.
2. Complete the form VAT 100 for quarter ended 31 December 2010 and outline the date on which any VAT becomes payable.
3. Briefly outline the consequence of a VAT registered trader submitting a VAT return and/or payment late.

Total 20 Marks

QUESTION 3 (*Compulsory*)

Greg has been employed for some years by BIGBUILD Ltd at a basic salary of £125,000 per annum and a handsome bonus based on his performance and company profits achieved. The bonus is calculated annually and paid in the June following. Details of salary and bonus in the last two years are as follows:-

	Gross Salary £	PAYE Deducted £
Basic Salary	125,000	42,520
Bonus y/e 31.3.2010 (Paid June 2010)	36,000	9,000
Bonus y/e 31.3.2011 (Paid June 2011)	45,000	12,600

In addition, Greg receives a generous benefits package which includes

- 1) a company car which is used by him for private purposes. The vehicle is a Land Rover Discovery which was purchased new in June 2009 at a cost of £24,800. The vehicle has CO₂ emissions 220g/km. The company cover all costs of insurance, petrol and servicing.
- 2) His employer contributes to an Inland Revenue approved pension scheme for Greg and contributions this year have been as follows:-

Employer contribution	£4,500	
Employee contribution (@ 6% Basic salary)		£2,700
- 3) BIGBUILD Ltd also pay private medical insurance premiums on behalf of Greg, his wife Jan and four children. In 2010/11 premiums amounts to £1,800.
- 4) BIGBUILD contribute £55pw to an approved childminder for Greg's youngest child Ffion.
- 5) Greg has also secured from his employer an interest free loan of £70,000 which was used to purchase a small holiday cottage in Wales for use by himself and his family. He received this loan in January 2008 but repayments over 10 years have only commenced. The first repayment of £7,000 was made in January 2011.

Other income/expenditure for the year 2010/11 has been as follows:-

	£	£
Furnished Holiday Lettings:-		
Income received	2200	
Less allowable expenses	<u>(2900)</u>	
Net Loss		(700)

Question 3 continued on next page

QUESTION 3 (*Cont'd*)

The property is let all year round with a view to making a profit and was let for 3 months in 2010/2011. Losses B/F from previous years on this property amount to £500

National Savings Bank Interest received	
	£
Ordinary Account	65
Investment Account	82
Bank Deposit Interest Received (Net) (on Joint A/C with Jan)	216
Dividends received from JACKS PLC (Net)	2,340

In addition, Greg has made approved Gift aid donations in the year amounting to £5400 (net).

Required

- a) Compute the total Benefit in kind chargeable on Greg for 2010/11.
- b) Calculate Greg's Income tax liability for 2010/11.
- c) State clearly the date by which any tax due will be payable.

Total 20 Marks

SECTION B**Answer ANY TWO of the FOUR questions in Section B****QUESTION 4**

Fraser Ltd has operated for some years and has had the following results

	Y/E 31.12.06	Y/E 31.12.07	Y/E 31.12.08	Y/E 31.12.09	6 M/E 30.6.10	Y/E 30.6.11
Trade Profit/Loss	(43,500)	165,000	7,500	15,000	127,500	(330,000)
Interest Income	15,000	16,500	1,500	3,000	18,000	21,000
Chargeable Gains/ Losses	27,000	(7,500)	NIL	NIL	3,000	(1,500)
Gift Aid Donation	NIL	1,500	NIL	NIL	4,500	1,500

Fraser has no associated companies

Required

- a) Compute the Profits chargeable to Corporation Tax for all periods shown on the basis that loss relief is claimed as soon as possible.
- b) State what relief is available for
- 1) Trade losses not yet relieved.
 - 2) Capital losses not yet relieved.
 - 3) Unrelieved Gift Aid donations.

Total 20 Marks

QUESTION 5

After years of running a successful beauticians salon Rosie Grimshaw who is widowed and resident in the UK has decided to retire to the country. Rosie has not made any previous business disposals since 5 April 2008. During 2010/11 she has disposed of the following assets:-

- i) On 1st July 2010 sold the salon for £1,400,000 to include the following:-

	Sales Proceeds £	Cost £
Premises	800,000	The premises had been acquired by Rosie's husband for £280,000. He transferred it to Rosie when it was worth £350,000
Fixtures & Fittings	250,000	400,000
Goodwill	300,00	120,000
Stock	<u>50,000</u>	75,000
	<u>1,400,000</u>	

Capital allowances where applicable have been claimed on the fixtures & fittings
Costs of disposal have been incurred as follows:-

	£
Agents Fee re sale of property	7,000
Advertising	1,870
Legal Fees	3,500
Accountants Fee for CGT planning	<u>4,000</u>
	<u>16,370</u>

- ii) Sold a painting for £12,500 which she had bought for £2,500 some years ago. Auctioneers fees of 5% of gross proceeds were charged.
- iii) Sold four acres of land for £40,000 of a ten acre plot that she had acquired some years earlier for £20,000. At the date of sale, the remaining six acres were valued at £24,000.
- iv) Sold 6,000 shares in Spec Builders plc to her son Jason for £30,000 (their market value). She had previously bought the shares on 1 March 2007 for £78,000. Jason has since sold these shares in January 2011 for £27,000.

Required

- a) Calculate the Gross taxable gains /losses for Rosie in the 2010/11 year on each of the disposals above assuming that she has no other income in the year.
- b) Briefly outline to Rosie the significance of the date of 23 June 2010 for disposals made and the CGT payable.
- c) Advise Rosie specifically, what relief if any can be claimed by her for the loss sustained on the disposal of shares to her son Jason.

Total 20 Marks

QUESTION 6

Joyce operates a business as a self employed software supplier trading under the name of Software Solutions. Trevor works for the business and he receives a monthly salary of £3,500 and this year also received a bonus of £6,500 paid in January 2011.

He drives a company car with a benefit value of £4,500. No fuel is provided. He is also in receipt of private medical insurance at a cost to the business of £750.

Tax adjusted Profits assessable in the year 2010/11 amount to £65,000.

Required

a) Outline the amount of National Insurance contributions payable in the year stating clearly

1. The class payable
2. Payable by whom and by what date.

The business is currently registered for VAT and sells at present exclusively in the UK. Joyce is considering expanding to sell to ROI. She is unclear how this affects her VAT status and is unsure how sales in ROI should be treated

Required

b) Outline clearly to her how she should treat

1. Sales to non business customers in the ROI
2. Sales to business customers in the ROI.

Total 20 Marks

QUESTION 7

The following multiple choice question consists of twenty parts, each of which is followed by **FOUR** possible answers. There is **ONLY ONE** right answer in each part.

Requirement

Indicate the **right** answer to each of the following twenty Parts

N.B. Each part carries 2 marks

- [1] Dev, a sole trader takes goods for his own use from his local corner shop. He should account for Income Tax on these goods at:-
- a) Cost price of goods, net of VAT.
 - b) Selling price of goods, net of VAT.
 - c) Cost price of goods including VAT.
 - d) Selling price of goods including VAT.
- [2] Matt is a VAT registered builder. He enters into a contract with Jan to build an extension to her home. The overall contract price is £50,000 (gross) which includes kitchen appliances costing £7,500 (gross). Matt's VAT position in respect of this transaction is
- a) Nil. No VAT due on extension.
 - b) Refund due £1,117.02
 - c) VAT Payable £7,446.80
 - d) VAT Payable £6,329.78
- [3] Before any VAT paid can be deducted as Input tax, which of the following criteria is NOT required to be met:-
- a) The recipient of the supply or person acquiring the goods must be a taxable person.
 - b) The supplies must have been incurred for the purpose of the business.
 - c) The person seeking to claim input tax must hold a valid invoice or other document.
 - d) The goods or services on which the input VAT was charged must have been paid for by the person seeking to claim the input tax.

QUESTION 7 (Cont'd)

- [4] Employee John is provided with a company van to carry out the company's business. John is allowed to take the van home with him in the evenings and at weekends for unrestricted personal use. All costs, including fuel, in respect of the van are covered by the company. The van cost £18,500 when purchased new in March 2010. The total benefits in kind assessable on John for y/e 5 April 2011 will be:-
- a) Nil
 - b) £3,000
 - c) £3,500
 - d) £3,700
- [5] Neatfit Ltd ceased trading on 31 March 2011. The last accounts prepared for the company covered the eighteen months to 31 March 2011. The final corporation tax assessment will cover the period:-
- a) 1 January 2011 – 31 March 2011.
 - b) 6 months ended 31 March 2011.
 - c) 12 months ended 31 March 2011.
 - d) 18 months ended 31 March 2011.
- [6] Colm sold an antique bureau in July 2010 realising a capital gain of £10,000. If this was his only gain in the tax year, Colm is obliged to make a return on this gain on or before:-
- a) 31 August 2010.
 - b) 5 April 2011.
 - c) 31 January 2011.
 - d) 31 January 2012.
- [7] John George is a director and major shareholder in Jacks Ltd. John's current account is currently overdrawn by £5,000. As a result, the company will be required to make a payment under S455 CTA 2010 (formerly S419 ICTA 1988) of:-
- a) Nil – Payment exempt as John is a Director.
 - b) £1,250
 - c) £1,000
 - d) £2,000

QUESTION 7 (Cont'd)

- [8]** In 2010/11 Kevin has chargeable capital gains of £40,000 and allowable losses of £10,000

He also has allowable losses of £20,100 brought forward. The amount of allowable losses available for carry forward to 2011/12 will be:-

- a) £200
- b) Nil
- c) £29,900
- d) £9,900

- [9]** Ashton Peacock is a self employed butcher with a net Income Tax Liability at 2010/11 of £18,000. Interim payments were made based on his 2009/10 tax position of £7,000 on 31 January 2011 and 31 July 2011. If the outstanding liability of £4,000 is not paid until 30 June 2012 surcharges due will be:-

- a) Nil
- b) £200
- c) £400
- d) £100

- [10]** Paula makes up her accounts to 30 June each year. During the year to 30 June 2010 Paula had made the following total capital acquisitions:-

Plant & Equipment	£120,000
Fixtures & Fittings	£ 15,000
Motor Car CO ₂ emissions 150g/km	£ 26,000

Assuming Paula makes the maximum claim possible, her claim in the year 2010/11 will be :

- a) £82,200
- b) £115,200
- c) £67,700
- d) £55,200

Total 20 Marks

2nd Year Examination: May 2011

Taxation II (NI)

Suggested Solutions

Students please note: These are suggested solutions only; alternative answers may also be deemed to be correct and will be marked on their own merits.

Question 1 Tictock Ltd

Corporation Tax Computation Y/E 31 March 2011

a)

	£	
Trading Income (see below)	228,400	
Property Income	72,000	
Interest Receivable	60,000	
Chargeable Gains	<u>40,000</u>	
PCTCT	<u>400,400</u>	

Profits = £400,400x28%	112,112.00
Less Marginal relief	
$\frac{7}{400} \times (1,500,000 - 400,400)$	<u>(19,243.00)</u>
Corporation Tax Payable	<u>92,869.00</u> payable 1.1.2012

Trading Income

	£	£
Net Profit per accounts		425,200
Add : Disallowable Expenditure		
General Provision for bad debt	2,000	
Advertising: Luxury Hampers	5,000	
Travel: Directors speeding fines	500	
Entertaining customers	4,500	
Depreciation	<u>49,200</u>	<u>61,200</u>
Less Income assessable elsewhere		486,400
Interest Receivable	60,000	
Rental Income receivable	72,000	
Profit on sale non current assets	<u>60,000</u>	
		(192,000)
Less Capital allowances (below)		<u>(66,000)</u>
		<u>228,400</u>

Capital Allowances

A.I.A (28.800 + 15,200)	= 44.000
FYA 100% Car	<u>22,000</u>
	<u>66,000</u>

- b)
1. If the company are late in submitting their tax return they will receive a fixed penalty of £200
 2. Failure to keep proper records can result in a fine of £3,000
 3. Records for the poa to 31.3.2011 must be kept until 31.3.2017

Question 2 WINGSPAN LTD

VAT Payable
Q/E 31 December 2010

	Gross	VAT	NET
	£	£	£
OUTPUTS			
Sales in UK	740,955 ⁰⁰	110,355 ⁰⁰	630,600 ⁰⁰
Sale in France	208,806 ⁰⁰	-	208.806 ⁰⁰
Sales in ROI (VAT Reg)	17,500 ⁰⁰	-	17,5000 ⁰⁰
Sales in ROI (Non VAT Reg)	105,750 ⁰⁰	15750 ⁰⁰	90,000 ⁰⁰
Sales in Canada	30,560 ⁰⁰	-	30,560 ⁰⁰
Deemed Supply			
Mercedes	425 ⁰⁰	63 ³⁰	361 ⁷⁰
BMW	496 ⁰⁰	73 ⁸⁷	422 ¹³
	1,104,492 ⁰⁰	126,242 ¹⁷	978,249 ⁸³
VAT due on acquisitions EU	156,768 ⁵⁰	23,348 ⁵⁰	133,420 ⁰⁰
	<u>1,261,260⁵⁰</u>	<u>149,590⁶⁷</u>	<u>1,111,669⁸³</u>
INPUTS			
Purchases UK supplies	238,640 ⁰⁰	35,542 ¹³	203,097 ⁸⁷
Purchases EU	156,768 ⁵⁰	23,348 ⁵⁰	133,420 ⁰⁰
Purchase Machinery	168000 ⁰⁰	25021 ²⁸	142,978 ⁷²
Rent	12000 ⁰⁰	1787 ²³	10,212 ⁷⁷
Telephone	860 ⁰⁰	128 ⁰⁹	731 ⁹¹
Electricity	1600 ⁰⁰	238 ³⁰	1,361 ⁷⁰
Advertising	20,000 ⁰⁰	2978 ⁷²	17,021 ²⁸
Repairs & Man	8667 ⁰⁰	1290 ⁸³	7,376 ¹⁷
M/E (6240+3075)	9315 ⁰⁰	1387 ³⁴	7927 ⁶⁶
	<u>615,850⁵⁰</u>	<u>91,722⁴²</u>	<u>524,128⁰⁸</u>

As the return will be required to be submitted on line the date for submission and payment will be by 3 7.2.2011

		£	
Box	1	126,242-17	
	2	23,348-50	
	3	149,590-67	
	4	91,722-42	
	5	57,868-25	
	6	1,111,669-83	
	7	524,128,08	
	8	316,306-00	(208,806 +17,500 +90,000)
	9	133,420-00	

2) VAT will be payable on line by 7.2. 2011

3) HMRC will issue a default surcharge notice which will extend to 31.12.2011.

Further defaults in this surcharge period will be as follows:-

1 st default	2% tax due
2nd default	5% tax due
3rd default	10% tax due
4th default	15% tax due

Question 3 GREGGa) **Benefit in kind chargeable 2010/11**

	£
Company Car (24,800x33%)	8,184
Company Fuel (18,000 x 33%)	<u>5,940</u>
	14,124
Private medical	1,800
Childminder Fees	-
Interest Free Loan ($\frac{70,000 - 63,000}{2} \times 4\%$)	<u>2,660</u>
	<u>18,584</u>

b) **Income Tax Computation
2010/11**

	£	N/S	S	Div
Income From Employment				
Salary	125,000	125,000		
Bonus (30.6.10)	36,000	36,000		
B.I.K (above)	<u>18,584</u>	<u>18,584</u>		
	179,584	179,584		
Loss on Furnished Lettings (note 1)	(700)	(700)		
NSB Interest Ordinary	-	-	-	-
Investment	82	82		
Bank Deposit Int ($\frac{216}{0.80} = \frac{270}{2}$)	135		135	
Dividend Income ($\frac{2340}{0.90}$)	<u>2,600</u>			<u>2,600</u>
Total Income	181,701	178,884	217	2,600
Less Personal Allowances	-	-	-	-
Taxable Income	181,701	178,884	217	2,600

$$37400 + \frac{5400}{0.80} = \text{£}44150 \quad \text{EBR 2}$$

Taxed:

N/S	44150 x 20%	= 8,830.00	
N/S	<u>112,600</u> x 40%	= <u>45,040.00</u>	
	156,750	53,870.00	
N/S	22134 x 50%	= 11,067.00	Rates
S	217 x 50%	= 108.50	

Div	2,600 x 42 ¹ / ₂ %	= <u>1,105.00</u>	
		66,150.50	
Less Tax Paid at source			
PAYE	Salary	(42,250.00)	
	Bonus	(9,000.00)	
Bank Deposit Int		(27.00)	Tax credits
Dividend Income		<u>(260.00)</u>	
o/s I.T Due		<u>£14,343.50</u>	

b) Outstanding Income Tax Due £14,343.50 payable by 31 January 2012

Note 1

As the property is available for letting for >140 days and is actually currently let > 70 days the loss incurred on the property will be available for offset against other income in the year.

Question 4 FRASER LTDa) **C.T. Liability**

	y/e 31.12.06	y/e 31.12.07	y/e 31.12.08	y/e 31.12.09	6mle 30.6.10	y/e 30.6.11
Trade Profits	-	165,000	7,500	15,000	127,500	-
Less S393 (1)		<u>(1,500)</u>				
		163,500				
Interest Income	15,00	16,500	1,500	3,000	18,000	21,000
Chargeable Gains	<u>27,000</u>	=	=	=	3,000	=
Less Capital losses b/f					<u>(3,000)</u>	
	42,000	180,000	9,000	18,000	145,500	21,000
Less S393(1) (a) S393 (1) (b)	<u>(42,000)</u>			<u>(9,000)</u>	<u>(145,500)</u>	<u>(21,000)</u>
Gift Aid Donations		<u>(1,500)</u>				
PCTCT	-	178,500	9,000	9,000	-	-
Unrelieved Charges	-	-	-	-	4,500	1,500

**LOSS MEMO
TRADE LOSSES**

	£		£
Y/E 31.12.06	(43,500)	Y/E 30.6.11	(330,000)
Less S393(1) (a) Offset against Current profits before charges	<u>(42,000)</u>		(21,000)
	1,500		
C/F S393 (1)	(1,500)		
C/B S393 (1) (b)		6 mle 30.6.10	(145,500)
		⁶ / ₁₂ 31.12.09 x 18,000	<u>(9,000)</u>
Unrelieved Trade Losses			<u>154,500</u>

CAPITAL LOSSES

Y/E 31.12.07	(7,500)
Used c/f 30.6.10	<u>3,000</u>
	(4,500)
Y/E 30.6.2011	<u>(1,500)</u>
	<u>(6,000)</u>

- b) Unrelieved losses/charges will be dealt with as follows
- Trade losses – C/F against Future trade Profits S393) (1)
 - Capital losses – C/F set against future capital gains
 - Unrelieved Gift Aid Donations – lost

Question 5 Rosie Grimshaw**a) Gross taxable gains**

1.	£
Disposal Proceeds	
Premises	800,000
Goodwill	300,000
Less Acquisition Costs	1,100,000
Premises	(280,000)
Goodwill	(120,000)
	700,000
Less Selling Costs (16,370 – 4,000)	(12,370)
	<u>687,630</u>
2.	£
Proceeds of Painting	12,500
Less costs of sale	(625)
Net Proceeds	11,875
Less Cost of purchase	(2,500)
	<u>9,375</u>
Max 5/3* (12,500 – 6,000) = £10,833	
3.	
Sale of Land (Part Disposal)	
	£
Proceeds	40,000
Less attributable cost <u>40,000</u> x 20,000 = 40,000 + 24000	(12,500)
	<u>27,500</u>
4.	
Spec Builders PLC Shares	£
Proceeds	30,000
Less cost	78,000
	<u>(48,000)</u>

- b)** Gains arising on disposals made before 23 June 2010 are taxed at a rate of 18% irrespective of the individual's total taxable income

Gains arising on disposals made on or after 23 June 2010 are taxed at either 18% or 28% depending on the individual's taxable income.

In calculating CGT payable taxpayers will be able to deduct losses and the annual exemption amount in the best way to minimise the tax due.

- c)** This is a loss on a disposal to a connected person. The loss is only allowable on a gain on a disposal to the same connected person.

Question 6 Trevora) **Trevor NIC**

$$\begin{aligned} \text{Total earning} + 3500 \times 12 &= 42,000 \\ \text{Bonus} &= \underline{6,500} \\ &48,500 \end{aligned}$$

NIC Payable as follows:-

CLASS 1

Primary Contribution	£
$(43,875 - 5,715) = 38,160 \times 11\% =$	4197.60
$(48,500 - 43,875) = 4,625 \times 1\% =$	<u>46.25</u>
	<u>4243.85</u> Payable by Joyce

Secondary Contribution	£
$(48,500 - 5,715) = 42,785 \times 12.8\% =$	<u>5,476.48</u> Payable by
Trevor	

All Class 1 contributions payable within 14 days of the end of each tax month (19th month)

Class 1A Payable on Benefits	£
$(4,500 + 750) = 5,250 \times 12.8\%$	672.00 Payable by Trevor
the	Due by 19 July following
assessment	relevant year of

CLASS 2

$£2.40 \times 52 =$	£
	124.80 Payable by Trevor
arrears	Monthly/quarterly in

CLASS 4

$(5715 - 43,875) = 38,160 \times 8\% =$	£
$(65,000 - 43,875) = 21,125 \times 1\% =$	3052.80
	<u>211.25</u>
	<u>3264.05</u> Payable by
Trevor	
assessment	In two equal instalments
Assessment	31 .1.in year of
	31.7 in year of

b)

DESPATCHES WITHIN EU	
Sold to non business customer	Charge UK VAT in the normal way and include it in the UK VAT return
Sold to business customer in another EU country	<p>Zero rate the supply of goods if:</p> <ul style="list-style-type: none"> • the goods are sent out of the UK to somewhere in another EU country; • The customer is genuinely registered for VAT in another EU country; • The supplier obtains the customer's VAT registration number – including the two letter country code – and shows it on their sales invoice; • and • The supplier holds evidence that the goods were delivered to another EU country. <p>The value of the goods and services must be accounted for in the suppliers' VAT Return in Box 6 and Box 8 in the usual way. If any VAT is due in the destination country, then the customer pays it to the tax office in their country.</p>

Question 7

Multiple choice

- Q1 B
 2 D
 3 D
 4 C
 5 B
 6 D
 7 B
 8 A
 9 B
 10 A

Notes

$$\begin{array}{r}
 2) 50,000 * 7/47 \qquad \qquad = 7446.00 \\
 \text{Less Input tax} \\
 7,500 * 8/47 \qquad \qquad = (1,117.02) \\
 \hline
 \qquad \qquad \qquad \qquad \qquad \underline{6,329.78}
 \end{array}$$

10)

120,000		CLAIM
<u>15,000</u>		
135,000		
AIA* <u>(62,500)</u>		62500
	72,500	
	<u>32,000</u>	
	104,500	
WDA 20%	<u>(20,900)</u>	<u>20,900</u>
		<u>83400</u>
*AIA $9/12 * 50,000 = 37,500$		
$3/12 * 100,000 = \underline{25,000}$		
62,500		

2nd Year Examination: May 2011

Taxation II (NI)

Examiner's Report

General Comment

Once again the intention this year is to examine the core elements of the syllabus and concentrate on the major subject areas. Overall performance was much in line with May 2010 with only a slight decrease in the pass rate (62% achieving > 50 marks compared to 64% in 2010) but a sizeable drop in performance of candidates achieving > 60 marks (30% compared to 42% in 2010).

Summary Stats

	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q5</u>	<u>Q6</u>	<u>Q7</u>	<u>TOTAL</u>
<u>Av Mark</u>	11	13	11	11	9	9	9	53
<u>No. Attempting</u>	<u>253</u>	<u>253</u>	<u>253</u>	<u>100</u>	<u>193</u>	<u>54</u>	<u>154</u>	

<u>MARKS RANGE</u>	<u>No. Achieving</u>	<u>%</u>	<u>2010 %</u>
18-49	96	38	36
50-59	82	32	22
60+	<u>75</u>	<u>30</u>	<u>42</u>
	<u>253</u>	<u>100</u>	<u>100</u>

QUESTION 1

This question was a basic Corporation Tax computation for a company with no associates but a level of Profit that left them eligible for Marginal Relief. Students generally dealt well with the requirement to adjust profits to determine Income from Trade but a surprising number did not identify that Income assessable elsewhere had to reappear in the question then as Property Income, Interest Receivable and Chargeable Gains! The three requirements of part b to the question were generally poorly answered with some students either talking vaguely about fines and penalties and a surprising number unaware of the specific date for retention of company records. The specific rules and availability of Capital Allowances again this year were not known by a number of candidates.

QUESTION 2

This VAT question was the question that scored most highly of all questions on the paper and it is encouraging to see that most students dealt well with the completion of the entries for the VAT 100 form. Most dealt well with the Deemed Supplies for the Output Tax but some seemed confused then with the amount of Input Tax that could be reclaimed. Once again it is imperative that students know the due dates for the submission of returns and that they understand the system

for the issue of Default Surcharge Notices and the implications of default within the notice period. Once again vague reference to fines and penalties is not fully sufficient to secure full marks available.

QUESTION 3

It was considered that this would have been a question that a lot of students expected to see this year with the introduction of the 50% tax band and higher rate charges and restriction of allowances for top earners. A lot of students seemed unaware of this! A couple of other notable comments would be the issues as follows:-

- 1) The treatment of Personal Pension plans and the requirement to extend the Basic Rate Band
- 2) Ability to offset the loss on Furnished Lettings due to period let
- 3) Students wrongly Grossing up NSB Investment account interest and ignoring the exemption on NSB Ordinary Account.
- 4) The incorrect calculation of the Benefit in Kind chargeable on the Interest free Loan in the year.

QUESTION 4

As always some students struggle with a standard Corporation Tax Loss question which has appeared in the manual, on past papers and indeed on Pilot papers and cannot in any way be considered to be an obscure question. Once again a lot struggled with the Layout, the carry back of losses to short accounting periods and the basic requirement to show a Loss Memo. Valuable marks were also lost in part b) where there was a requirement to state how specifically you would deal with unrelieved trade losses, capital losses and unrelieved gift aid donations.

QUESTION 5

This question was a very popular question answered by 76% of all candidates as an optional question. Candidates should always note carefully what they are being asked to calculate. The question was "What was the Gross Chargeable Gain" in the four separate disposals and there was therefore no requirement to worry about ER or rates of CGT applicable. Basic rules re disposals of chattels at >£6,000 should be known. Similarly only a couple of candidates either recognised or mentioned the fact that the loss on the disposal of shares was to a connected person and that this therefore impacts on the use of such a loss!

QUESTION 6

This did not prove to be a popular question with candidates with only 21% electing to choose this question. The average mark was a little lower mainly as a result of the following

- 1) Failure to state date NIC payable
- 2) Failure to recognise Minimum limits for payment of NIC

3) Failure to identify all classes of NIC payable i.e. Class 1, 1A, Class 2 and Class 4. While some candidates did recognise the fact that NIC is payable on the value of benefits under Class 1A they did not separate these out!
Part b) to the question on the VAT implications of trading within the EU was generally well answered.

QUESTION 7

Unusually this Multiple Choice question was the second most popular question on the optional Section B of the paper with 61% of candidates electing to answer it. Once again it must be emphasised that there is no negative marking in a multiple choice question therefore students MUST answer all 10 questions. The correct answer is there even at a guess!