

Taxation II

Northern Ireland

Addendum to Subject Manual
(Detailing critical errors and corrections)

December 2009



Chapter 1

Administration and Procedures

Page 1 & 2 & 9 – Note that references to the General & Special Commissioners should be replaced by the Tax Tribunal, Birmingham

Page 3 – Insert ‘Corporation Tax Act 2009’ under the Statute Law heading for Corporation Tax.

Chapter 2

Introduction to Income Tax

Page 31 – ‘If the taxpayer is over 75’, please note that this should read ‘is 75 or over’

Page 33 – The Blind Person’s allowance is shown as £1,800; this should read £1,890

Page 33 - ‘...remaining £1,500 against their spouse’s taxable...’ –please note that the figure should read £1,590

Page 43 - Exercise 7– ‘he paid PAYE of £4,700 on his salary during the year’ – please note that this text should be deleted and can be ignored.

Page 45 – Exercise 9 – ‘She makes a gift donation of £1,000’ – this should read as ‘She makes a personal pension contribution of £1,000’

Page 50 – Exercise 1 – Total Income Figure – This figure should be amended to £53,750

Page 51

- Exercise 4.1 – Michael – ‘as the personal allowance cannot create a refund’ – Students please note that it can create a refund if there is a tax suffered.
- Exercise 4.1 Personal Allowance Figures have been amended to £2,500 and £2,500 respectively

- Page 52 – Exercise 4.3 – Personal Allowance figures should read £9,640
- Exercise 4.3 – Taxable Income figures should read £1,610 in both columns
 - The full personal age allowance should read as €9,640

Page 54 – Exercise 6 – Tax Liability figures – Please amend to:

	Savings Income	Dividend Income	TOTAL
Bank Interest (£12,250*100/80)	£15,313		
Dividends (£50,000*100/90)		£55,555	
Total Income	£15,313	£55,555	£70,868
Less Personal Allowance	(£6,475)		(£6,475)
TAXABLE INCOME	£ 8,838	£55,555	£64,393
Tax Liability:			
Savings income:			
£2,440 * 10%			£244
£6,398 * 20%			£1,280
Dividend income:			
£28,562 * 10% **			£2,856
<u>£26,993</u> * 32.5%			£8,773
£55,555			
TOTAL TAX LIABILITY			£13,153
Less tax credit on dividends (£55,555 - £50,000 = £5,555)			(£5,555)
Less tax suffered on interest (£15,313 - £12,250 = £3,063)			(£3,063)
Tax Payable			£4,535

Page 57 – Exercise 9 – ‘Extension to the basic rate band:’ – Students please add the following text:

** Extension to the basic rate band:

Basic rate band	£37,400
Add gross pension contribution	£1,250
<u>(£1,000 * 100/80)</u>	
<u>New Basic Rate Band</u>	<u>£38,650</u>

Chapter 3

Employment Income

Page 79 – Answer 2 – tax Liability figures – calculations amended as follows:

	Non-Savings Income	Savings Income	Dividend Income	TOTAL
Employment Income (See W1 below)	£52,250			
Rental Income	£6,485			
Bank Interest (£225*100/80)		£281		
ISA Interest		Exempt		
Dividends (£900*100/90)			£1,000	
Total Income	£58,735	£281	£1,000	£60,016
Less Personal Allowance	(£6,475)			(£6,475)
TAXABLE INCOME	£ 52,260	£ 281	£1,000	£53,541
Tax Liability:				
Non-savings income:				
£40,100 * 20% (W2)				£8,020
<u>£12,160</u> * 40%				£4,864
£52,260				
Savings income:				

£281 * 40%	£112
Dividend income:	
£1,000 * 32.5%	£325
TOTAL TAX LIABILITY	£13,321
Less tax credit on dividends (£281-£225 = £56)	(£56)
Less tax suffered on interest (£1,000 - £900 = £100)	(£100)
Less PAYE	(£9,780)
Tax Payable	£3,385

Page 84 – Exercise 2 – This has been amended as follows:

Amount reimbursed by employer (39,000 * 35p)	£13,650
Less amount allowable per HMRC:	
10,000 * 40p	(£4,000)
29,000 * 25p	<u>(£7,250)</u>
	<u>(£11,250)</u>
Taxable Benefit	<u>£ 2,400</u>

Matthew's taxable employment income is £32,400 which is made up from his annual salary of £30,000 plus the taxable benefit from his mileage expenses of £2,400.

Page 85 - Exercise 4 – 'Amount deductible from employer'; this should read 'Amount deductible from employment income'

Chapter 4

Employment Income – Benefits in Kind

Page 104 – Step 7 – This should read: “If the car is unavailable for 30 consecutive days or more...”

Page 108 – Paragraph beginning ‘The reduction to the taxable fuel benefit’; The second sentence should read: ‘It is also reduced if the employee stops receiving fuel for private use during the tax year.’

Page 111 – ‘Fuel Benefit’ Figures should read as indicated below

Fuel Benefit – Scenario 2

Step 1:	Base figure	£16,900
Step 2:	% calculated for car benefit above	20%
Step 3:	Multiply Step 1 by Step 2 – Fuel Benefit	£3,380
Step 4:	Time apportion $£3,380 * 6/12$	<u>£1,690</u>

The total car benefit in this scenario is $£1,800 + £1,690 = £3,490$

Fuel Benefit – Scenario 3

As Julie did not reimburse her employer in full for the private fuel it has no impact on the benefit. Therefore the fuel benefit remains at £1,690 and the total car benefit is $£1,800 + £1,690 = £3,490$.

Page 115 – Exercise 5 – Should read: “The computer was first provided in January 2009...”

Page 119 – Exercise 6 – The first sentence should read: “Lucy received a loan from her employer...”

– Exercise 7 – Should read: “As of April 2009, an employee had...”

Page 126 – Exercise 2 – The text below the calculation should read:

“Although Nigel’s earnings are less than £8,500, he owns more than 5% of the company’s share capital. Therefore Nigel is a P11d Employee.”

Page 126 – 128 – Exercise 3,4,5 – The following calculations have been amended

Exercise 3:

Step 1:	List price	£15,750
Step 2:	Add cost of accessories	£2,500
Step 3:	Less capital contribution	<u> -</u>
		<u>£18,250</u>
Step 4:	Round CO ₂ emissions down to nearest 5g/km 179g/km becomes 175g/km	
Step 5:	Check % to apply for emissions of 175g/km per Tax Reference Material = 23% plus 3% for diesel car = 26%	
Step 6:	Multiply list price by % (£18,250 * 26%)	£4,745
Step 7:	Time apportion, if necessary - the car was available from 6 September 2009 to 5 April 2010 i.e. 7 months: $7/12 * £4,745$	£2,768
Step 8:	Deduct personal contribution for private use	-
		<u> -</u>
	Taxable Benefit	<u>£2,768</u>

Exercise 4:

Calculate the car benefit first:

Step 1:	List price	£16,250
Step 2:	Add cost of accessories	-
Step 3:	Less capital contribution	<u>-</u>
		<u>£16,250</u>
Step 4:	Round CO ² emissions down to nearest 5g/km 226g/km becomes 225g/km	
Step 5:	Check % to apply for emissions of 225g/km per Tax Reference Material = 33%. As it is a diesel car 3% must be added, however this is restricted to 35%.	
Step 6:	Multiply list price by % ($£16,250 * 35%$)	£5,688
Step 7:	Time apportion, if necessary - the car was available from 6 January 2009 to 5 April 2010 i.e. 3 months:	
	$3/12 * £5,688$	£1,422
Step 8:	Deduct personal contribution for private use $£100 * 3$	(£300)
		<u>£1,122</u>
	Taxable Car Benefit	<u>£1,122</u>

Fuel Benefit:

Step 1:	Base figure	£16,900
Step 2:	% calculated for car benefit above	35%
Step 3:	Multiply Step 1 by Step 2 – Fuel Benefit	£5,915
Step 4:	Time apportion $£5,915 * 3/12$	£1,479

The total taxable benefit in respect of the car is £1,122 + £1,479 = £2,601

Page 128 - Exercise 5 - the calculation should read as follows:

Market value when first provided	£ 1,800
Less annual benefit assessed 08/09	(£ 360)
Less annual benefit assessed 09/10	(£ 360)
Less price paid by employee	<u>(£ 500)</u>
	£ 580

Page 139/140 – Question 10 – All References to 2008 should read as 2009;
 - On point (v), the cost of the parking space was for the year to 5 April 2010;
 - On point (vi), should read “Leona repaid £6,000 off this loan on 5 January 2010 and the remainder of the loan was still outstanding at 5 April 2009”
 - For requirement (a), the date should read 5 April 2010.

Chapter 5

Rental Income

Page 145 – Example – Should read: ‘Simon owns a rental property and has charged...’

Also please note that replacement of single glazed windows with double glazed windows will be treated as a repair (HMRC PIM 2020)

Page 151 – Example of Rental Losses – The total Rental Income for 2009/10 should read £82,750; the total for Allowable Expenditure should read £71,500

Page 160 – The figure for Net dividends from UK Trading company should read £13,500

Chapter 6

Capital Gains Tax

Page 168 – In the example, the question should read: “She paid estate agent’s fees of £2,250...”

Page 170 – In the example, the question should read: “In the tax year 2008/09 he had a capital gain of £20,000 and in 2009/10 a capital gain of £30,000.

Page 176 – Part Disposal of Asset – Should read: “B is the value of the land not disposed of remaining”

Page 178 – Chattels – The third sentence should read: “If the sale proceeds exceed £6,000 but the cost is less than £6,000, any gain is limited to $\frac{5}{3}$ * (Gross Proceeds - £6,000)”

Page 179 – Exercise 8 - Students can delete point 3.
- The question should then read: “Which of these disposals is exempt from CGT?”

Page 183 – 3rd Bullet Point – Should read: “The gardens are not larger than half a hectare”

Page 184 – Answer – Point 1 Should read as follows:

1. The house was not occupied for 18 months in 2003 and 2004, therefore only part of the gain qualifies for relief:

Proceeds	£100,000
Less Cost	<u>(£80,000)</u>
Gain	£20,000

£20,000*102 months (120-18)

120 months (Jan 1999 to Dec 2008)

= £17,000 qualifies for relief and the remaining £3,000 is subject to CGT

Page 190 – The Solutions to the Exercises were omitted. These solutions are as follows:

Exercise 1:

Disposal Proceeds		£45,000
Less legal fees		<u>(£1,000)</u>
		<u>£44,000</u>
Less Cost:		
Acquisition cost	£19,500	
Legal fees	£750	
Enhancement exp - 2004	£5,000	
Enhancement exp – 2008	<u>£7,700</u>	
		<u>(£32,950)</u>
Chargeable Gain		£11,050

Exercise 2

Disposal Proceeds	£95,000
Less legal fees	<u>(£3,000)</u>
	£92,000
Less cost	<u>(£50,000)</u>
	£42,000

Exercise 3

Gain	£12,000
Loss	<u>(£8,000)</u>
Net Gain	£4,000

Exercise 4

Gain	£15,000
Less loss b/fwd	<u>(£4,900)</u>
Net Gain	£10,100

Loss Memo:

Loss B/fwd	£12,000
Less utilised in 2009/10	<u>(£4,900)</u>
Loss c/fwd	£7,100

Exercise 5

Gain	£9,000
Less loss b/fwd	<u>-</u>
Net Gain	£9,000

Loss Memo:

Loss B/fwd	£5,000
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Less utilised in 2009/10	<u>(£-)</u>	
Loss c/fwd	£5,000	
 <u>Exercise 6</u>		
Gain		£20,000
Gain		£12,750
Loss		<u>(£10,000)</u>
Net Chargeable Gain		£22,750
Less loss b/fwd		<u>(£12,650)</u>
		£10,100
Less annual exemption		<u>(£10,100)</u>
Taxable Gain		-

Loss Memo:		
Loss B/fwd	£17,000	
Less utilised in 2009/10	<u>(£12,650)</u>	
Loss c/fwd	£4,350	

<u>Exercise 7</u>		
Gross Proceeds		£70,000
Less Cost:		
£35,000 * $\frac{70,000}{£70,000+£400,000}$		<u>(£5,213)</u>
Chargeable Gain		<u>£64,787</u>

Exercise 8

As the disposal proceeds for the chair are less than £6,0000 – this is exempt from CGT.

Exercise 9

Proceeds	£2,500,000
Less cost	_____ -
	£2,500,000
Less ER:	
(4/9 * £2,500,000)	<u>(£1,111,111)</u>
Net Gain	£1,388,888

CGT: 18% * £1,388,888 £250,000

Page 191 – Question 2 – The figure at (b) should be £43,182

Page 194 – Question 7 – Should read “Pat has not made any other capital disposals in 2009/10”

Page 198 – Question 13 – The requirement should read: “Calculate Robert’s Capital Gains Tax for 2009/2010...”

Chapter 7

Taxing Income from Self Employment

Page 216 – Answer 2 – Should read as follows:

Net Profit	£13,136
Add back:	
Drawings by Shauna	£19,500
Provision for Shauna’s income tax	£ 3,780
Electricity (15% * £5,829)	£874
Extension to dining area in restaurant	£7,500

Repainting of whole building	£200	
Car hire charge (15%*£2,750)	£413	
Gifts of hampers to customers	£690	
Depreciation	1,490	
Donation to Oxfam	<u>250</u>	
		<u>£34,284</u>
Tax Adjusted Profit		<u>£47,420</u>

The effect of the add backs is to increase Shauna's taxable trading income from £13,136 to £47,420.

Page 221 – Answer – The Net Profit figure should read: £1,576 and the Tax Adjusted Profits figure should read: £14,183.

Page 229 – Exercise 3 – The Net Profit figure should read £2,747 and the Tax Adjusted Profits should read £11,962.

Chapter 8

Capital Allowances, CIS and Basis Periods

Page 248 – second set of bullet points – the CO₂ emission levels are incorrect. The first bullet should read "up to 110g/km..."; the second bullet should read "emissions between 111 – 160 g/km"

Page 253 – Answer – Should read "Her profits for the 10 month period must be..."
- Accordingly, the calculation should read:
 $£45,000 * 7/10 = £31,500$

Page 254 – Diagram – The box on the bottom left of the diagram should read "Basis Period is the 1st 12 months of trade"

Page 257 – Exercise 2 – Please insert the following text regarding Kristine's accounts: "The accounts for 30 June 2010 show a profit of £42,000."

Page 258 – Exercise 6 – Should read: "Calculate Kara's assessable profit for the tax years 2007/08, 2008/09 and 2009/10."

Page 261 – Example 5 – Should read: “Cyril starts to trade on 1 February 08...”

Page 272 – Exercise 5, Step 4 – The first basis period should read “1 May 08 – 5 April 09”

Page 273 – Exercise 6, Step 4 – The first calculation should read “1mth/16mth * £137,590 = £8,599”

Page 274 – Exercise 7, Step 3 – The second row of the table should read as follows:

09/10	1 Mar 09 – 28 Feb 2010	1 Mar 09 – 28 Feb 10 12/14 * £76,900 = £65,914	£65,914
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Chapter 9

Corporation Tax

Page 292 –top of page – An additional bullet point should be inserted, as follows: “
 ○ No annual exemption is available.”

Page 307 – Example 2 – The figure under year ended 30/06/08 contain a calculation error. The figure for PCTCT should read as £15,850. The sub-total above this (prior to deduction of charges) should read as £16,250.

Page 313 – Enquiries and Assessments – Please note the following information in relation to an appeal (paragraph 2):

“For any appeal to be valid, it must:

- Be in writing;
- Specify in detail each item in the assessment against which the appeal is made; and
- Specify in detail the grounds for the appeal in respect of each item.”

Page 322 – Question 6 – Should read: “...was incorporated on 21 February 2009...”, and “...commenced trading as mechanical engineers on 1 April 2009 and its profit & loss account for its first accounting period to 31 March 2010 showed:”

Chapter 11

Detailed Computational Aspects

Page 375 – Exercise 1 – Should read: “...in VAT quarter ended 31 March 2010”; further, after ‘An analysis of invoices...’, note that: “The VAT invoice relating to this purchase is dated 9 April 2009 and was received on 11 April 2010”.

- Also (page 376) note that No. 3 should read: “...for the quarter ended 31 March 2010...”

Page 384 – paragraph 3 – Should read: “Their annual total turnover, including exempt and non taxable income, must not exceed £225,000 (including VAT).”

Page 396 – Question 2 – The figures at point (c) and (d) should both read as £150,000.

Page 398 – Question 5 – The figure at point (b) should read £31.73

- Question 6 – The VAT rate for confectionary & beverages should read as 15%
- Question 6 – The figure at point (b) should read as £11.25

Page 399 – Question 7 – The figure at point (b) should read as £325.69

Page 407 – Question 12 – Students should ignore this question.