

---

# **Taxation I**

## **Northern Ireland**

1<sup>st</sup> Year Examination

**August 2010**

**Paper, Solutions & Examiner's Report**

### **IMPORTANT NOTE**

This Examination Paper and Suggested Solutions have been adjusted to reflect the amendments in the recent UK budget that are in force as of 1 Sept 2010 and which will be examined from May 2011 until further notice. Amendments that are due to come into force from 1 Jan 2011 (or subsequently) will NOT be examined in the 2011 Examinations and thus are not reflected herein.

### NOTES TO USERS ABOUT THESE SOLUTIONS

The solutions in this document are published by Accounting Technicians Ireland. They are intended to provide guidance to students and their teachers regarding possible answers to questions in our examinations.

Although they are published by us, we do not necessarily endorse these solutions or agree with the views expressed by their authors.

There are often many possible approaches to the solution of questions in professional examinations. It should not be assumed that the approach adopted in these solutions is the ideal or the one preferred by us. Alternative answers will be marked on their own merits.

This publication is intended to serve as an educational aid. For this reason, the published solutions will often be significantly longer than would be expected of a candidate in an examination. This will be particularly the case where discursive answers are involved.

This publication is copyright 2010 and may not be reproduced without permission of Accounting Technicians Ireland.

© Accounting Technicians Ireland, 2010.

## Accounting Technicians Ireland

1<sup>st</sup> Year Examination : Autumn 2010

**Paper : TAXATION I (Northern Ireland)**

Thursday 19<sup>th</sup> August 2010 : 9.30 a.m. to 12.30 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 **THREE** 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 enclosed with the paper:

- Tax Reference Material
- Form P11 (3 Copies) [Question 1]
- Form VAT 100 [Question 5]

**Answer ALL THREE questions in this Section****Question 1**

A small local engineering business has approached you with a view to you completing their weekly payroll. Despite the economic slowdown, the business is becoming increasingly busy and the owner, Michael, wants someone to run the payroll for him. Apart from the owner, the business only has three employees in the small factory/workshop and the details of their cumulative wages and deductions, inclusive of week 27 of 2010/11 are as follows;

|  | <b>Norman</b> | <b>Jim</b> | <b>Brian</b> |
|--|---------------|------------|--------------|
|  | <b>£</b>      | <b>£</b>   | <b>£</b>     |
| Gross Cumulative Wages exclusive of all deductions | 8,750         | -          | 9,500        |
| Tax Due to Date                                    | 1,077.18      | -          | 1,266.64     |
| Tax Code   | 647L          | -          | 609L         |
| Gross Basic Wages in Week 28                       | 320           | 175        | 345          |
| Gross Over-Time Week 28                            | 91.50         | 15         | 98.50        |

- (a) Jim has just joined the company in week 28, having completed an engineering qualification at his local college. He has not yet received a tax code.
- (b) Norman contributes to a private pension scheme at the rate of £520 per annum.
- (c) Brian is considered the supervisor in the workshop. He used up one his annual leave entitlement days during week 28 in order to go fishing.

**Requirement**

- (i) Complete all relevant sections of form P11 with respect to PAYE and NIC deductions for Norman, Jim and Brian.

**18 Marks**

- (ii) Michael wanted to know why you do not need details of his monthly drawings for payroll purposes. Explain *briefly* why it is not necessary for Michael to be on the payroll and why PAYE does not have to be deducted from his drawings.

**2 Marks****Total 20 Marks**

**Question 2**

Barry works as a teacher in Frampton Grammar School as a senior games master. His gross salary is £38,000 per annum with responsibility points for head of year and 'Saturday' duties, giving him an additional £2,500 (gross) per annum on top of his basic salary. Barry's occupational pension contributions in 2010/11 were £2,025 and the PAYE deducted from his salary in 2010/11 was £6,400.

Barry travels widely on Saturday mornings to various school rugby matches and is reimbursed for this travel by the school. During 2010/11 he travelled 1,835 miles in his private car in the course of these duties and was reimbursed £1,007 in lieu of this travelling.

Barry has casual earnings from his local fitness club where he leads a 'spin' class. His 'take-home' pay at the fitness club came to £640 in 2010/11 after deduction of PAYE in the amount of £160 had been deducted.

Barry's late father had left him some investments in his will. During 2010/11 the income from these investments came to;

|  |       |
|--|-------|
|  | £     |
| National Savings & investment Bank Interest              | 2,200 |
| Interest on Allied Bank savings                          | 1,544 |
| Dividends received from Kukriboro Limited (a UK company) | 1,404 |

Barry bought a small investment property a few years ago which he rents out. Barry rented this property, throughout 2010/11, through Little & Co. letting agents, at a monthly rent of £450. Little & Co. charged a 12% agents commission. Barry paid the rates on the property of £876 and mortgage payments on the loan he had taken out to buy the property were £413 (interest of £227) per month.

Barry rents a room in his house to a lodger. The lodger pays Barry £295 per month and had been resident with Barry during all of 2010/11.

Barry made a charitable contribution to his local Church of £520 in 2010/11.

**Required**

Complete Barry's income tax calculation for 2010/11 showing clearly his tax liability and the balance of any tax owing or refundable for the year.

**Total 20 Marks**

**Question 3**

Oran Heaney runs a successful business as a butcher, trading as 'Heaney & Sons'. His profit & Loss account for the year ended 31<sup>st</sup> March 2011 is as follows;

**Profit & Loss Account for the Year Ended 31<sup>st</sup> March 2011**

|                           | Notes | £            | £               |
|---------------------------|-------|--------------|-----------------|
| Sales.....                | (1)   |              | 200,668         |
| Cost of Sales             |       |              | <u>(48,914)</u> |
| Gross Profit              |       |              | 151,754         |
| <i>Less: Expenses</i>     |       |              |                 |
| Wages & Salaries.....     | (2)   | 23,346       |                 |
| Rent & Rates.....         | (3)   | 13,121       |                 |
| Telephone.....            | (4)   | 242          |                 |
| Light & Heat.....         | (5)   | 1,717        |                 |
| Repairs.....              | (6)   | 1,476        |                 |
| Motor Expenses.....       | (7)   | 1,649        |                 |
| Legal & Professional..... | (8)   | 6,291        |                 |
| Bad Debts.....            | (9)   | 749          |                 |
| Advertising.....          | (10)  | 2,484        |                 |
| Subscriptions.....        | (11)  | 363          |                 |
| Depreciation              |       | <u>1,934</u> | <u>(53,372)</u> |
| Net Profit                |       |              | <u>98,382</u>   |

**NOTES**

(1) The sales figure includes £2,150 received from an advertising company in return for Oran's permission for allowing a permanent advertising hoarding in a prominent position on the side wall of his premises, £3,000 received from letting the flat above the shop to a tenant and also £180 collected for 'Children in Need' but not yet deposited for the charity. After the profit & loss account had been drawn up, Oran discovered an unpaid invoice sent to a local restaurant for £600 which had not been included in the above sales figure.

(2) *Wages & Salaries*

|  | £             |
|--|---------------|
| Wages & NIC to his son during the summer.....          | 1,400         |
| Oran's drawings.....                                   | 12,900        |
| Wages & NIC for an apprentice butcher.....             | 8,766         |
| Course Fees for the apprentice at a local college..... | <u>280</u>    |
|  | <u>23,346</u> |

(3) The figure for rent & rates relate to the whole building which Oran rents. HM Inspector of taxes has agreed that 30% of the premises relate to the apartment above the shop. Oran had not paid his landlord any premium to acquire the lease from his landlord.

(4) Oran had put a separate telephone line into the apartment and the telephone expense relates entirely to business use in the shop.

(5) *Light & Heat*

|   | £            |
|---|--------------|
| Heat & Electricity bills for the entire premises..... | 1,368        |
| Cost of a new display fridge unit.....                | <u>349</u>   |
|   | <u>1,717</u> |

**Question 3 (Cont'd)**

|      |   |              |
|------|---|--------------|
| (6)  | <i>Repairs</i>  | £            |
|      | Fridge unit repairs.....  | 195          |
|      | Repairs to the old shop awning.....   | 115          |
|      | Loss on disposal of old awning.....   | 173          |
|      | Replacement with a new awning.....  | 399          |
|      | Repairing a minor plumbing leak in the apartment.....   | 90           |
|      | New 'ultra-violet' insect killers in the shop.....  | 150          |
|      | Cost of second hand sausage making machine.....   | 224          |
|      | Cost of repairing sausage machine before use.....   | 80           |
|      | New butcher knives.....   | <u>50</u>    |
|      |   | <u>1,476</u> |
| (7)  | Oran drives a small van in which he makes some deliveries to restaurants, cafes and larger private customers. Oran does take the van home in the evening and uses it when running occasional private errands and when going fishing. HM Inspector of taxes has agreed the private use at 40%. |              |
| (8)  | <i>Legal &amp; Professional</i>   | £            |
|      | Parking Fines.....  | 120          |
|      | Book-Keeping.....   | 1,875        |
|      | Preparing Tax Return.....   | 360          |
|      | Public Liability Insurance.....   | 3,701        |
|      | Solicitor Fees (writing to restaurant relating to a non-payment)....  | 60           |
|      | Solicitor Fees (drawing up letting arrangement for apartment tenant)...   | <u>175</u>   |
|      |   | <u>6,291</u> |
| (9)  | <i>Bad Debts</i>  | £            |
|      | Specific Provision on debt owed by a local restaurant.....  | 538          |
|      | General Provision against other trade debts.....  | <u>211</u>   |
|      |   | <u>749</u>   |
| (10) | <i>Advertising</i>  | £            |
|      | Trade related adverts taken in a local newspaper.....   | 1,439        |
|      | Calendars with 'Heaney & Sons' logo.....  | 230          |
|      | Gifts of Turkey Joints to customers at Christmas.....   | 615          |
|      | Advertising for tenant of apartment.....  | 76           |
|      | Job Adverts for apprentice position.....  | <u>124</u>   |
|      |   | <u>2,484</u> |
| (11) | <i>Subscriptions</i>  | £            |
|      | Subscriptions to 'Meat Matters', a trade related publication.....   | 82           |
|      | Subscription to a local traders association.....  | 186          |
|      | Membership fee to a local football club.....  | <u>95</u>    |
|      |   | <u>363</u>   |

**Required**

Calculate Oran's adjusted trading profits for the year ended 31<sup>st</sup> March 2011.

**Total 20 Marks**

**Question 4**

Ciaran, a self-employed friend of yours, believes he has submitted his tax returns on time but has recently received notification that HMRC is to open an investigation into his 2010/11 tax return.

**Requirement**

Write briefing notes for a working lunch with Ciaran where you will address the following issues and try to put his mind at rest.

- (i)** Outline the due date(s) for the submission of his self assessment tax returns;
- (ii)** Indicate the due dates for the payment of any tax, including the date for payment of any payments on account and final balancing payments;
- (iii)** Ciaran is not sure if he has to make payments on account. Outline how Ciaran can calculate the amount to be paid as payments on account and any circumstances in which the payment can be waived;
- (iv)** Outline what penalties or surcharges Ciaran might face if he were to submit returns late or not pay his tax liability by the relevant due date(s);
- (v)** Discuss the timescale for HMRC to notify of the opening of an enquiry in respect of any given tax year;
- (vi)** Outline Ciaran's right of appeal against any decisions HMRC might make;
- (vii)** What are Ciaran's obligations for record-keeping in respect of any tax returns he makes?

**Total 20 Marks**

Your old school friend Marie, who has started her own business making exclusively taxable (with respect to VAT) supplies, has approached you for help with her VAT return for the quarter ended 31<sup>st</sup> March 2011. She has given you the following preliminary information with respect to sales and purchases;

**Sales**

Gross sales have been £187,698.02 inclusive of VAT totalling £27,955.03 (net sales £159,742.99).

**Purchases**

Gross purchases have been £71,884.35 inclusive of VAT totalling £10,706.19 (net purchases £61,178.16).

A simple calculation suggests to you that the above amounts were consistent with a VAT rate of 17.5%, however, Marie provides you with the following information;

- (i) Included in purchases, in the preliminary figures above, is an invoice for a purchase in the gross amount of £3,450 from Bizzywig Ltd. While the related output VAT has been included in the preliminary figures, this invoice does not have VAT number.
- (ii) Marie made a supply consisting of a mixture of constituent elements, some of which were taxable goods (costing £95) and some of which were zero rated goods (costing £5). She has been advised that this is properly a 'composite' supply but doesn't know how to account for output VAT. Marie advises you that the net sales value is £175 and she has not included the relevant figures in her preliminary sales figures.
- (iii) In light of the ongoing recession and, as a pilot, Marie is offering a cash discount on some bigger accounts in order to establish if this improves her overall sales and cash flow by simultaneously helping her better customers with a reduction in purchase expenses. The pilot cash discount is 5% for payment received within 30 days. Sales invoices with a net sales value of £39,330 were included in the pilot and have the discount offered clearly displayed on the relevant invoices. Marie informs you that the net value of these invoices is included in her preliminary sales figures and that the output VAT on such invoices, also included in her preliminary figures, was £6,882.75. 60% of these invoices had been paid by the end of March.
- (iv) Goods with a gross value of £470 (included in the preliminary figures) were bought and 70% of these goods were taken by Marie for her personal use. Marie is not sure how she should adjust for this, if at all, and has not done so in the above preliminary figures.

**Question 5** (*Cont'd*)

- (v) Marie made a supply of goods to a customer with a full gross sales value of £2,350. The customer paid £900 on 12<sup>th</sup> March as a deposit. The goods were dispatched on 27<sup>th</sup> and a VAT invoice sent to the customer on 8<sup>th</sup> April. Marie informs you that since the invoice was sent out after 31<sup>st</sup> March, she has not included any figures relating to the sale in the preliminary figures above.
- (vi) A customer bought goods with a gross value of £768 in June 2010 on the usual 30 day payment terms and, subsequently, has not made any payment to Marie. The original sale and the related output tax was properly accounted for in the relevant VAT return.

**Required**

Adjust Marie's preliminary figures to account for the above information at (i) – (vi) above, show clearly the amount of VAT payable by, or refundable to, Marie for the quarter ended 31<sup>st</sup> March 2011 and complete her VAT 100 form.

**Total 20 Marks**

*Note. A VAT rate of 17.5% has been used by Marie in the preparation of her preliminary figures and should be used by you for the purposes of the answer to this question.*

**Question 6**

Brian owns three properties (other than his own home) in Armagh, Ballycastle & Cookstown which he lets on the following terms:

- All rents are paid quarterly in advance (31<sup>st</sup> March, 30<sup>th</sup> June, 30<sup>th</sup> September & 31<sup>st</sup> December);
- The Armagh property is let at £3,780 per annum (gross) on a lease that commenced on 1<sup>st</sup> June 2008. Brian lets this property through a letting agent, who charges a 10% commission, and he incurred repair expenditure of £3,875 on this property during the year after a leak in a radiator. During the year, Brian also incurred expenditure of £2,200 upgrading from oil to natural gas heating.
- The Ballycastle property is let through an estate agent, who charges a 12% commission for this service. This property had been let until the end of June 2010 at a gross annual equivalent rent of £4,440. The property was empty until 1<sup>st</sup> October 2010 when it was re-let at a rate of £4,080. Brian incurred repair expenditure on this property of £65 on 30<sup>th</sup> April 2010 and a further £135 on 21<sup>st</sup> July 2010. Expenditure of £180 advertising for a new tenant was incurred by Brian during July and August 2010.
- The Cookstown property had been bought in May 2010 and let for the first time from 1<sup>st</sup> July 2010 at a rate of £3,300 per annum. Brian manages this tenancy himself. During May & June 2010 Brian incurred expenditure of £1,350 on internal and external painting, decorating and repairing some bathroom plumbing. In 2010/11 Brian incurred expenditure of £4,500 on a small kitchen extension for this property prior to letting and £130 advertising for tenants.

**Required**

- (i) Show the assessment to 'Income from Property' with respect to income tax for Brian relating to the above properties for 2010/11.

**16 Marks**

- (ii) Brian has also recently let a room in his own private residence, charging his house-mate £175 per month. He advertised this vacancy in a small local newspaper at a cost of £10 and paid to repaint the room prior to the letting at a cost of £325. Advise Brian how he should treat this with respect to income tax.

**2 Marks**

- (iii) How should Brian declare his income from property and by which date(s) should any resultant income tax liabilities be paid?

**2 Marks****Total 20 Marks**

# 1st Year Examination: August 2010

## Taxation I 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.

#### Solution 1

| (i)                                 |                  | Norman (£)  | Jim (£)   | Brian (£)  |
|-------------------------------------|------------------|-------------|-----------|------------|
| Gross Wages to Week 27              |                  | £ 8,750.00  |           | £ 9,500.00 |
| Gross Wages Week 28                 |                  | £ 320.00    | £ 175.00  | £ 345.00   |
| Gross Overtime Week 28              |                  | £ 91.50     | £ 15.00   | £ 98.50    |
|                                     |                  | £ 9,161.50  | £ 190.00  | £ 9,943.50 |
| Free Pay                            | 6479 x<br>28/52  | -£ 3,488.69 |           |            |
| Free Pay                            | 6479 x 1/52      |             | -£ 124.60 |            |
| Free Pay                            | 6099 x<br>28/52  |             |           | -£3,284.08 |
| Net Taxable Salary to Week 28       |                  | £ 5,672.81  | £ 65.40   | £ 6,659.42 |
| <b>Taxed as per:</b>                |                  |             |           |            |
|                                     | £                |             |           |            |
|                                     | 5,672.81 x 20% = | £ 1,134.56  |           |            |
|                                     | 65.40 x 20% =    |             | £ 13.08   |            |
|                                     | 6,659.42 x 20% = |             |           | £ 1,331.88 |
| Cumulative Total Tax Due to Week 28 |                  | £ 1,134.56  | 13.08     | £ 1,331.88 |
| Cumulative Tax Due to Week 27       |                  | -£ 1,077.18 | 0         | -£1,266.64 |
| Tax Due in Week 28                  |                  | £ 57.38     | £ 13.08   | £ 65.24    |

#### National Insurance Contributions

##### Primary

|                       |   |       |   |         |
|-----------------------|---|-------|---|---------|
| (411.50-110.00) x 11% | £ | 33.17 |   |         |
| (190-110) x 11%       |   |       | £ | 8.80    |
| (443.50 - 110) x 11%  |   |       |   | £ 36.69 |
|                       | £ | 33.17 | £ | 8.80    |
|                       |   |       | £ | 36.69   |

##### Secondary

|                      |   |       |   |         |
|----------------------|---|-------|---|---------|
| (411.50-110) x 12.8% | £ | 38.59 |   |         |
| (190 - 110) x 12.8%  |   |       | £ | 10.24   |
| (443.50-110) x 12.8% |   |       |   | £ 42.69 |
| Total NIC            | £ | 71.76 | £ | 19.04   |
|                      |   |       | £ | 79.38   |

**Solution 1**  
(Cont'd)

- (ii) Michael's drawings are not a deductible expense (since he is not an employee).

Michael's tax liability is based on the adjusted profits of the business, regardless of the amount of his drawings.

**Solution  
2**

|           |   |               |                    |
|-----------|---|---------------|--------------------|
| <b>W1</b> | Gross Salary  |               | £ 38,000.00        |
|           | Responsibility Pay  |               | £ 2,500.00         |
|           | Pension   |               | <u>-£ 2,025.00</u> |
|           |   |               | £ 38,475.00        |
|           | Mileage   | 1835 x<br>40p | £<br>734.00        |
|           | Refund  |               | £<br>1,007.00      |
|           |   |               | <u>£ 273.00</u>    |
|           |   |               | £ 38,748.00        |
| <b>W2</b> | Second Employment (Gross)   |               | £ 800.00           |
| <b>W3</b> | Rents Accrued/Received  |               | £ 5,400.00         |
|           | Commission x 12%  |               | -£ 648.00          |
|           | Rates   |               | -£ 876.00          |
|           | Interest (£227 x 12)  |               | <u>-£ 2,724.00</u> |
|           |   |               | £ 1,152.00         |
| <b>W4</b> | Rental Income from Lodger (£295 x<br>12)  |               | £ 3,540.00         |
|           | Rent-a-room Relief  |               | £ 4,250.00         |
|           | Since receipts are less than the relief, there is no<br>net taxable income relating to receipts from the<br>lodger. |               |                    |
| <b>W5</b> | Charitable Contribution £520 x 100/80   |               | £ 650.00           |

**Income tax computation, Barry, 2010/11**

|                                 | £                  | £                 | £                 |
|---------------------------------|--------------------|-------------------|-------------------|
| Teaching Salary (W1)            | £ 38,748.00        |                   |                   |
| Second Employment (W2)          | £ 800.00           |                   |                   |
| Rental Income (W3)              | £ 1,152.00         |                   |                   |
| NSB Interest (Gross)            |                    | £ 2,200.00        |                   |
| Bank Interest (£1,544 x 100/80) |                    | £ 1,930.00        |                   |
| Dividends (£1,404 x 100/90)     |                    |                   | £ 1,560.00        |
|                                 | <u>£ 40,700.00</u> | <u>£ 4,130.00</u> | <u>£ 1,560.00</u> |
| Personal Allowance              | -£ 6,475.00        |                   |                   |
|                                 | <u>£ 34,225.00</u> | <u>£ 4,130.00</u> | <u>£ 1,560.00</u> |

**Solution****2***(Cont'd)***Taxed as Per:**

|                           | Interest            | Ex B/R        | Dividends |         |             |
|---------------------------|---------------------|---------------|-----------|---------|-------------|
| £                         |                     |               |           |         |             |
| 34,225.00                 |                     |               |           | x 20%   | £ 6,845.00  |
| £                         | £                   |               |           |         |             |
| 3,175.00                  | 3,175.00            |               |           | x 20%   | £ 635.00    |
| £                         | £                   | £             |           |         |             |
| 37,400.00                 | 650.00              | 650.00        |           | x 20%   | £ 130.00    |
|                           | £                   |               |           |         |             |
|                           | 305.00              |               |           | x 40%   | £ 122.00    |
|                           | £                   |               |           |         |             |
|                           | 4,130.00            |               |           |         |             |
|                           |                     | £             | £         |         |             |
| Extended Basic Rate       | 650.00              | 1,560.00      |           | x 32.5% | £ 507.00    |
|                           |                     | £             |           |         |             |
|                           |                     | 1,560.00      |           |         | £ 8,239.00  |
| Less:                     | Dividend Tax Credit |               |           |         | -£ 156.00   |
|                           |                     |               |           |         | £ 8,083.00  |
| Less:                     | Tax Paid at Source  | PAYE          |           |         | -£ 6,400.00 |
|                           |                     | PAYE          |           |         | -£ 160.00   |
|                           |                     | Bank Interest |           |         | -£ 386.00   |
| Outstanding Tax Liability |                     |               |           |         | £ 1,137.00  |

**Solution 3****Oran Heaney Adjusted Profits for Y/E  
31/3/2011****Net Profit per the  
Accounts**

£ 98,382.00

**Add: Disallowed  
Expenses**

|                                   |             |             |
|-----------------------------------|-------------|-------------|
| Drawings                          | £ 12,900.00 |             |
| Rent & Rates (Non-Business)       | £ 3,936.30  |             |
| Heat & Electricity (Non-Business) | £ 410.40    |             |
| Fridge display (Capital)          | £ 349.00    |             |
| Loss on Disposal (Capital)        | £ 173.00    |             |
| Awning Replacement (Capital)      | £ 399.00    |             |
| Plumbing Leak (Non-Business)      | £ 90.00     |             |
| Insect Killers (Capital)          | £ 150.00    |             |
| Sausage Making Machine (Capital)  | £ 224.00    |             |
| Repair Before Use                 | £ 80.00     |             |
| Knives (Capital)                  | £ 50.00     |             |
| Motor Expenses (Non-Business)     | £ 659.60    |             |
| Parking Fines                     | £ 120.00    |             |
| Preparing Tax Return              | £ 360.00    |             |
| Solicitors Fees re: Tenant        | £ 175.00    |             |
| General Provision for Bad Debts   | £ 211.00    |             |
| Gifts (Food)                      | £ 615.00    |             |
| Rental Advert                     | £ 76.00     |             |
| Membership Fee (Non-Business)     | £ 95.00     |             |
| Depreciation                      | £ 1,934.00  | £ 23,007.30 |

**Less: Non-Trading  
Income**

|                       |            |             |
|-----------------------|------------|-------------|
| Advertising Rental    | £ 2,150.00 |             |
| Flat Rental           | £ 3,000.00 |             |
| Charitable Collection | £ 180.00   | -£ 5,330.00 |

**Add: Additional Invoice**

£ 600.00

**Adjusted Profits**

£ 116,659.30

**Solution 4**

Working notes, to include the following;

- The due date for submission of the tax return is by 31<sup>st</sup> October/January following the year of assessment. In the case of 2010/11, specifically, the return must be submitted by 31/10/11 if submitting a paper copy of the return or if leaving HMRC to calculate the liability, otherwise the return must be submitted by 31/1/2012 if submitting electronically and taking responsibility for the calculation of the liability. Note that where HMRC issued a taxpayer with notice requiring a return and three months from the date of this notice is a later date than those mentioned above, the later date applies as the revised deadline.
- Payments on account (POA) are made on two dates - 31<sup>st</sup> July and 31<sup>st</sup> January. Relating to 2010/11, the POA dates are 31/1/2011 and 31/7/2011 with a final balancing payment of tax (if relevant) made by 31/1/2012.
- Each POA is equal to 50% of the estimated liability for tax & Class IV National Insurance Contributions. With respect to the tax liability, payments on account must be made unless more than 80% of the total tax liability is collected through direct taxation (PAYE for example) or the liability is less than £1,000. This is unlikely to apply in this case & POA are almost certainly going to have to be made.
- Note that at the date of the first POA (say 31/1/2011), the payment made to HMRC must also include the final balancing payment made with respect to the previous tax year – ie. the final balancing payment in respect of 2009/10 is made by 31/1/2011 which is the due date for the first POA in respect of 2010/11.
- Late submission of the tax return incurs an automatic £100 penalty – ie. in the event of a paper return not being submitted by 1<sup>st</sup> November or an electronic return by 1<sup>st</sup> February. If the return has still not been submitted by the following 30<sup>th</sup> April (paper return) or by 31<sup>st</sup> July (online electronic return), a further penalty of £100 is imposed. Continued delay can result in a daily penalty of up to £60 being imposed. Finally, a further penalty (not exceeding the amount of tax due in the return) is imposed if the return has not been submitted by the anniversary of its original filing date.
- In the event that any related tax liability has not been paid by 28<sup>th</sup> February following the initial due date for submission/payment (31<sup>st</sup> January), a 5% surcharge (of the tax not otherwise paid) is imposed with a further 5% surcharge imposed if any tax remains outstanding on the 31<sup>st</sup> July following.
- Additionally, interest accrues on any overdue tax (either POA or balancing payments) from the day the tax was due until the day it is paid.
- HMRC normally have a period of twelve months from the date the return is delivered during which to issue notification that an enquiry is to be opened. If the return is filed late, then the twelve month 'window' runs for twelve months from the immediately next quarter date following the late filing.
- On completion of the enquiry, HMRC will issue a closure notice and make any necessary amendments. At this point, the taxpayer has 30 days in which to appeal any amendments made, stating the grounds for the appeal.

**Solution 4** (*Cont'd*)

- Beyond the 'normal' appeal window, referred to above, HMRC may make a discovery assessment (where there has been inadequate disclosure or fraudulent/negligent conduct on behalf of the taxpayer). In the case of tax-payer fraud or negligence, HMRC have up to 20 years from the relevant filing date in which to reopen a return.
- Tax-payers must keep records relevant to the tax return for 22 months from the end of the tax year , or for 5 years & 10 months in the case of a tax return relating to a business or property. Where a formal enquiry has been opened into a tax return, all records relating to the return must be kept until the completion of the enquiry or until such times as the enquiry could no longer be opened.

Note that marks may be awarded for other relevant points made other than those made above, up to maximum of 20 marks.

**Solution 5**

| <b>W1</b>   |   | <b>Net</b>        | <b>VAT</b>         | <b>Gross</b>        |
|---|---|-------------------|--------------------|---------------------|
|   | Previous VAT calculation on discounted invoices | £ 39,330.00       | £ 6,882.75         | £ 46,212.75         |
|   | To correct:                                     |                   |                    |                     |
|   | Net Sales                                       |                   |                    |                     |
|   | Value of Discounted Invoices                    | £ 39,330.00       |                    |                     |
|   | Discount (5%)                                   |                   | -£ 1,966.50        |                     |
|   |   |                   | <u>£ 37,363.50</u> |                     |
|   | VAT @ 17.5% (on discounted amount)              | <u>£ 6,538.61</u> |                    |                     |
|   | Gross   | £ 45,868.61       |                    |                     |
| <b>W2</b>   | Gross Value of Goods                            | £ 470.00          |                    |                     |
|   | VAT   | <u>-£ 70.00</u>   |                    |                     |
|   | Net Value                                       | £ 400.00          |                    |                     |
|   | Goods taken for personal use (70%)              | £ 280.00          |                    |                     |
|   | VAT thereon @ 17.5%                             | <u>£ 49.00</u>    |                    |                     |
|   | Gross Value                                     | £ 329.00          |                    |                     |
|   |   | <b>Net</b>        | <b>VAT</b>         | <b>Gross</b>        |
| <b>Outputs</b>                                    | £   | 159,742.99        | £ 27,955.02        | £ 187,698.01        |
| Composite Supply (ii)                             | £   | 175.00            | £ 30.63            | £ 205.63            |
| Discounted Invoices (iii) (W1)                    |   |                   | -£ 6,882.75        | -£ 46,212.75        |
|   |   |                   | £ 6,538.61         | £ 45,868.61         |
| Goods for Personal Use (iv) (W2)                  | £   | 280.00            | £ 49.00            | £ 329.00            |
| Deposit (v)                                       | £   | 765.96            | £ 134.04           | £ 900.00            |
|   | <u>£</u>  | <u>160,963.95</u> | <u>£ 27,824.55</u> | <u>£ 188,788.50</u> |
|   |   | <b>Net</b>        | <b>VAT</b>         | <b>Gross</b>        |
| <b>Inputs</b>                                     | £   | 61,178.17         | £ 10,706.18        | £ 71,884.35         |
| Invalid Invoice (i)                               | -£  | 2,936.17          | -£ 513.83          | -£ 3,450.00         |
| Bad Debt (vi)                                     | £   | 653.62            | £ 114.38           | £ 768.00            |
|   | <u>£</u>  | <u>58,895.62</u>  | <u>£ 10,306.73</u> | <u>£ 69,202.35</u>  |
| <b>VAT due for the quarter to 31st March 2011</b> |   |                   | £ 17,517.82        |                     |

**Solution 6**

| (i)                                  | <b>Armagh</b>                | <b>Ballycastle</b> | <b>Cookstown</b> | <b>Total</b> |
|--------------------------------------|------------------------------|--------------------|------------------|--------------|
| <b>Accrued<br/>Income</b>            |                              |                    |                  |              |
| Full Year<br>Letting                 | £ 3,780.00                   |                    |                  |              |
| 3/12 x £4,440                        |                              | £ 1,110.00         |                  |              |
| 6/12 x £4,080                        |                              | £ 2,040.00         |                  |              |
| 9/12 x £3,300                        |                              |                    | £ 2,475.00       |              |
|                                      | £ 3,780.00                   | £ 3,150.00         | £ 2,475.00       |              |
| <b>Less: Deductible<br/>Expenses</b> |                              |                    |                  |              |
| Commission                           | £3,780 x<br>10%<br>-£ 378.00 |                    |                  |              |
| Repairs                              | -£ 3,875.00                  | -£ 378.00          |                  |              |
| Advertising                          |                              | -£ 200.00          | -£ 130.00        |              |
|                                      | -£ 473.00                    | £ 2,392.00         | £ 2,345.00       | £ 4,264.00   |

**Note:** Even though pre-letting repairs to the Cookstown property have been incurred within 7 years of the first let, they have not been deducted since they do not relate to a period of letting and may be a type (eg repairs to plumbing, ie. an asset, before use) which is not deductible.

Answers which articulated the '7 year pre-letting' rule and allowed deductibility with supporting argument would, in an exam situation, be considered for credit.

(ii)  
This income is covered by the rent-a-room relief.

(iii)  
Brian should declare the appropriate amount of income and include in the tax return for 2010/11.

This return & the resultant tax must be returned/paid by 31/1/2012.

# 1st Year Examination: August 2010

## Taxation I NI

### Examiner's Report

#### General

The overall standard of answers at this sitting was somewhat mixed. Some insight into this can be gained by a brief perusal of the average mark achieved of 51.4% - in other words, the average mark was barely a 'pass' mark. The pass rate, however, was a creditable 70.3% of candidates although it can be noted that both of these statistics are down from equivalent figures for the most recent summer sitting.

As always, candidates are well served by a good grasp of the basic mechanics of income tax and VAT, however, a trend of poorly answered narrative questions and indications of a poor understanding of VAT continue to perplex and give cause for concern.

#### Question 1

This question examined the candidate's ability to perform basic payroll computations for waged (weekly paid) employees and was generally satisfactorily answered with an average score (out of a maximum of 20 available) of 13.6 marks.

When candidates lost marks in this question, a basic lack of understanding of the mechanics of payroll computations or inability to complete a form P11 was invariably involved. Mistakes included deducting private pension contributions in the payroll computations, *adding* 'free pay' to cumulative gross wages and adding cumulative tax liabilities for the previous period to the equivalent figure for the current period.

#### Question 2

This question tested candidates ability to perform an income tax computation for an employed individual who enjoyed work related benefits and some additional income. This was, again, a satisfactorily answered question with an average mark of 12.6 (out of 20).

Candidates tended toward basic mistakes such as extending the basic rate to account for occupational pension contributions, not extending the basic rate to account for the gift aid donations, confusion with the surplus mileage reimbursements, grossing up the National Savings Interest or assuming it was exempt, taxing rental income from the lodger even though it was clearly covered by rent-a-room relief and failing to make a distinction between capital and interest elements on the mortgage repayments on the investment property.

**Question 3**

This was a standard 'adjusted profits' question involving a range of common adjustments to expenditure & income. Again, the standard of answers was satisfactory with an average mark for this question of 12.2 (out of 20).

Once again it was perplexing to find students trying to lay out an answer to an adjusted profits question in something other than the standard layout, or trying to 'bury' their answer in an almost impenetrable lack of detail or explanatory workings – with some scripts the examiner had the feeling it was almost an exercise in forensic accounting to credit candidates with marks!

Common mistakes involved candidates becoming confused between capital and revenue expenditure, confusion between private and business expenditure and in one instance, a bizarre attempt to somehow extend the basic rate with respect to the 'Children in Need' collection!

**Question 4**

This question invited candidates to discuss some very basic matters relating to income tax administration and the average mark for this question of 5.2 (out of 20) was very disappointing indeed. I can only conclude that, when a candidate, for some reason, attempted this question, they did so without having devoted any significant study time to the topic and answers were often vague, ambiguous and confused.

**Question 5**

This question examined some basic VAT adjustments and, in common with the summer VAT question, was also very poorly answered with an average mark of only 6.8 (out of 20). Despite being clearly discussed in the manual, candidates seem very confused between mixed and composite supplies, how to calculate output VAT when discounts are offered, how to account for private consumption of goods by the trader, how to identify the (amended) basic tax point for a transaction or where to deal with bad debt relief claims.

**Question 6**

This question focused on the candidate's ability to calculate taxable income arising from investment properties. Of the optional questions at this sitting, this was the best (least worst) answered question with an average mark of 9.9 (out of 20). Candidates made mistakes in calculating the taxable receipts on the accruals basis, distinguishing between allowable (relating to the letting or a period of letting) expenses and non-allowable (capital or not relating to a period of letting) expenses and making some strange claims as to how any resultant income tax liabilities should be declared and settled.