
Taxation I

Northern Ireland

Autumn 2009

Paper & Solutions



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Accounting Technicians Ireland
(Formerly The Institute of Accounting Technicians in Ireland)

1st Year Examination: Autumn 2009

Paper : TAXATION I (Northern Ireland)

Thursday 20th August 2009: 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 the Northern Ireland.

Candidates should answer the paper in accordance with the appropriate provisions up to and including the Finance Act 2008. The provisions of the Finance Act 2009 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 any more than TWO question 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 inserts are enclosed with the paper:

- Form P11 & Form P45 (QUESTION 2)
- Tax Reference Material

SECTION A
Answer ALL THREE questions

QUESTION 1

Roberto operates a small convenience store and has been in business for a number of years. He provides you with a profit and loss account for the year ended 31st December 2008, together with the following additional information:

	Notes	£	£
Sales.....	(1)		151,206
Opening stock.....		9,206	
Purchases.....		<u>114,805</u>	
		124,011	
Less: Closing stock.....		<u>11,003</u>	
Gross profit.....			<u>113,008</u>
			38,198
<i>Less Expenses:</i>			
Wages.....	(2)	27,159	
Business rates.....		2,995	
Heat and light.....	(3)	1,641	
Repairs.....	(4)	7,944	
Insurance.....	(5)	1,361	
Telephone.....	(6)	1,306	
Motor expenses.....	(7)	2,354	
Subscriptions.....	(8)	248	
Specific bad debts written off.....		25	
Accountancy fees.....		745	
Postage and packaging.....		119	
Sundry allowable expenses.....		1,431	
Depreciation.....		2,365	
Loss on sale of shelving.....		414	
Professional fees.....	(9)	<u>1,081</u>	
			<u>51,188</u>
			<u>(12,990)</u>

NOTES**(1) Sales:**

The sales figure includes proceeds from the sale of a cash register amounting to £175. The cash register which had been fully depreciated in the account's, was purchased by a collector.

(2) Wages:

		£
Drawings for self.....		11,301
Staff wages.....		12,417
PAYE.....		<u>3,441</u>
		<u>27,159</u>

Staff wages includes a payment of £2,100 to Roberto's son Paolo for part-time work done while on holidays from university. Paolo worked as a cashier in the shop during his holidays and earned approximately £175 per week (gross). PAYE was operated on this salary.

PAYE includes a payment of £2,130 for Roberto's personal Income Tax liability for 2008/09.

(3) Heat and Light:

Roberto and his family live in a flat above the shop. He estimates that 25% of all heat and light costs are related to private use.

Question 1 continues on the next page

P.T.O. →

QUESTION 1 (*Cont'd*).**(4)** *Repairs:*

	£
Repairs to shop premises	347
Cost of new extension to shop premises.....	7,311
Repairs to fridge units	<u>286</u>
	<u>7,944</u>

(5) *Insurance:*

	£
Keyman Insurance for Roberto	194
Public liability insurance for the business	<u>1,167</u>
	<u>1,361</u>

(6) *Telephone:*

This figure includes the cost of broadband and cable television for the flat. The cost of these services amounted to £345. Roberto estimates that 25% of his telephone calls are private.

(7) *Motor expenses:*

Includes £115 for parking fines incurred when Roberto visited the local cash & carry. Roberto estimates 20% of the motor expenses relate to private use.

(8) *Subscriptions:*

	£
Trade magazines.....	118
Donation to Political party	75
Donation to local charity	<u>55</u>
	<u>248</u>

(9) *Professional fees:*

	£
Architects fees for shop extension.....	805
Costs of drafting employment contracts.....	<u>276</u>
	<u>1,081</u>

Requirement

Compute Roberto's tax adjusted profits for the year ended 31st December 2008.

Total 20 Marks

QUESTION 2

You have been asked to complete the payroll at WIRELESS LIMITED where Quentin, Raymond and Sean are employees. The details of their cumulative earnings and deductions, inclusive of Month 7 of 2008/09 and other relevant details are as follows:

	Quentin	Raymond	Sean
	£	£	£
Gross Cumulative Salary Exclusive of all Deductions	11,165.00	25,988.00	-
Tax Due to Date.....	1,542.89	6,463.68	-
Tax Code	495L	K277	-
Company Pension Scheme Contributions.....	5%	5%	5%
Gross Salary in Month 8.....	1,715.00	3,475.00	2,450.00

- (i) Raymond has given notice to the company that November is to be his last month working for Wireless Limited, his salary in month 8 being the last he will receive from the company.
- (ii) Sean has just joined the company in month 8 but, to date, no P45 has been received.

Requirement

Complete all relevant sections of form P11, relating to PAYE and NIC deductions, for Quentin, Raymond and Sean and complete Raymond's P45.

N.B. *Forms P11 and P45 have been supplied with the examination paper for the purposes of answering this question. Please show all working clearly.*

Total 20 Marks

QUESTION 3

Bob and Rita, are a married couple with a young family. Bob works as a senior Financial Consultant for NINJA MORTGAGES. Details of his remuneration package for 2008/09 are as follows:

Salary

	£
Basic salary (gross).....	46,500
PAYE deducted on salary.....	10,516

Benefits

Bob won an all expenses paid holiday to Turkey for himself and his family as part of a work incentive scheme based upon sales targets achieved that replaced the usual company bonus scheme. The family took the holiday in March 2009. The total cost of the holiday to the company was, ultimately, £3,175 although this price was only agreed after some negotiation as the brochure price for the holiday was £4,295.

Bob was provided with a company car in 2008/09. In an economy drive the company replaced Bob's Mercedes with an eco-friendly smart car during the previous tax year. The car has an engine capacity of 950cc and a list price of £11,500. Its CO₂ emissions are rated at 120 grams/km. The company pays for all of Bob's petrol, net of £50 per month contributed by Bob. His estimated business mileage for the year was 26,500 miles.

Bob was provided with health insurance from ABC Ltd costing the company £1,250 per annum. He also pays 6% of his basic salary into a company pension scheme. The company contributes an amount of 3% of his basic salary to the same scheme. He earned interest of £3,127 (net) on a deposit account into which he had banked earlier bonus payments.

Although Rita stays at home to look after the children she has her own independent source of income. Many years ago she had inherited several properties (which she now lets) and has some other income from investments which she has made from the rental surpluses earned on her properties. The details are as follows:

	£
<i>Net rental income</i>	6,810
Other Income:	
Interest on ISA	215
Interest from the NEWRY Building Society.....	2,025
Dividends from UK companies.....	3,195

Requirement

Prepare Bob and Rita's income tax computations for 2008/09.

Total 20 Marks

SECTION B**Answer ANY TWO of the three questions****QUESTION 4**

Your practice has just been approached by the director of GAMBOL Limited. The company has recently registered as an employer with HM Revenue & Customs and the director has requested some advice on the matter.

Requirement

Draft a letter to the director outlining the operation of PAYE. The letter should also address record-keeping requirements, operation of the PAYE coding system, year end return requirements and obligations regarding employees leaving or joining the company.

Total 20 Marks**QUESTION 5**

Simon runs a business selling computer equipment and insurance for computers. His records show the following input tax in the year to 31st March 2009. None of this input tax is blocked or non-business.

VAT Quarter	Attributable to Taxable Supplies £	Attributable to Exempt Supplies £	Non-attributable £
June 2008	141,000	8,148	63,500
September 2008	42,000	3,250	50,550
December 2008	91,000	750	9,775
March 2009	123,000	26,000	56,000

During the same period he made the following supplies:

VAT Quarter	Taxable Supplies £	Exempt Supplies £
June 2008	1,525,000	125,000
September 2008	735,000	83,500
December 2008	1,310,000	155,000
March 2009	1,850,000	258,000

Requirement

- (a) Calculate the input tax recoverable in each quarter and the annual adjustment. State when the annual adjustment must be accounted for to HM Revenue & Customs.

15 Marks

- (b) In relation to VAT, briefly contrast “Exempt” activities with “Zero-Rated” activities and explain the VAT consequences.

**5 Marks
Total 20 Marks**

QUESTION 6

The trading results of *four* separate individuals are as follows in the opening years of business:

Martin

	£
Commenced trade on 1 st February 2007	
9 months to 31 October 2007	18,900
Year ended 31 st October 2008	24,219

Nathan

	£
Commenced trade on 1 st December 2006	
13 months to 31 st December 2007	20,465
Year ended 31 st December 2008	25,416

Oliver

	£
Commenced trade on 1 st July 2006	
Year ended 30 th June 2007	16,399
Year ended 30 th June 2008	19,167

Peter

	£
Commenced trade on 1 st February 2006	
17 months to 30 th June 2007	29,411
Year ended 30 th June 2008	22,010

Requirement

Calculate the assessable profits for all relevant tax years in each instance detailing the basis periods, overlap periods and overlap profits.

N. B. Where relevant you may pro-rata by reference to months rather than days.

Total 20 Marks

1st Year Examination: Autumn 2009

Taxation I (NI)

Solutions

Solution 1

Roberto adjusted profits Year End 31/12/08

	Net Loss Per Accounts		(12,990)
<u>Less</u>	Non-trading income		
	Cash register	<u>175</u>	<u>(175)</u>
			(13,165)
<u>Add</u>	Disallowed Expenses		
	Drawings	11,301	
	Roberto income tax	2,130	
	Heat & Light (1,641 x 25%)	410	
	Extension	7,311	
	Broadband & TV	345	
	Private Telephone (1,306 - 345) x 25%	240	
	Parking fines	115	
	Private motoring (2,354 - 115) x 20%	447	
	Donation to political party	75	
	Charitable donation	55	
	Loss on disposal of asset	414	
	Architect fees	805	
	'Keyman' Insurance	194	
	Depreciation	<u>2,365</u>	<u>26,207</u>
	Adjusted profits		13,042

Solution 1 (*cont'd*)**Notes:**

- (i) The amount paid to Roberto's son seems reasonable for work done implying the expense is deductible.
- (ii) It might be possible to make an argument for allowing the parking fines on the basis of the fine being small and incurred in the act of carrying out trade related business.
- (iii) The charitable donation would have been permissible if a business benefit could have been presented.

Solution 2

	<u>Quentin</u>	<u>Raymond</u>	<u>Sean</u>
Gross Month 8 (M8) salary	1,715.00	3,475.00	2,450.00
<u>Less</u> Pension Contributions (5%)	<u>(85.75)</u>	<u>(173.75)</u>	<u>(122.50)</u>
	1,629.25	3,301.25	2,327.50
Gross salary to date	11,165.00	25,988.00	- -
<u>Less</u> Pension on gross salary to date	<u>(558.25)</u>	<u>(1,299.40)</u>	<u>- -</u>
Net M8 Cumulative Salary	12,236.00	27,989.85	2,327.50
<u>Free Pay</u>			
4,959 x $\frac{8}{12}$	<u>(3,306.00)</u>		
6,035 x $\frac{1}{12}$			<u>(502.92)</u>
<u>Additional Pay</u>			
2,779 x $\frac{8}{12}$		<u>1,852.67</u>	
Taxable M8 Cumulative Salary	<u>8,930.00</u>	<u>29,842.52</u>	<u>1,824.58</u>
Tax on M8 Cum. Salary as per;			
8,930 @ 20%	1,786.00		
34,800 x $\frac{8}{12}$ = 23,200.00 @ 20%		4,640.00	
6,642.52 @ 40%		2,657.01	
1,824.58 @ 20%	<u>- -</u>	<u>- -</u>	<u>364.92</u>
	1,786.00	7,297.01	364.92
<u>Less</u> Tax due to date	<u>(1,542.89)</u>	<u>(6,463.68)</u>	<u>- -</u>
Tax due M8	<u>243.11</u>	<u>833.33</u>	<u>364.92</u>
<u>NIC (Primary)</u>			
(1,715 - 455) x 11%	138.60		
(3,336.67 - 455) x 11%		316.98	
(3,475 - 3,336.67) x 1%		1.38	
(2,450 - 455) x 11%	<u>- -</u>	<u>- -</u>	<u>219.45</u>
	138.60	318.36	219.45
<u>NIC (Secondary)</u>			
(1,715 - 455) x 12.8%	161.28		
(3,475 - 455) x 12.8%		386.56	
(2,450 - 455) x 12.8%	<u>- -</u>	<u>- -</u>	<u>255.36</u>
TOTAL NIC	<u>299.88</u>	<u>704.92</u>	<u>474.81</u>

Solution 3**Bob: Income Tax Comp 2008/09**

	£	£
Salary	46,500	
<u>Less:</u> Pension (6%)	<u>(2,790)</u>	
	43,710	
BIK (W1)	<u>7,265</u>	
	50,975	
Interest $3,127 \times \frac{100}{80}$		<u>3,908</u>
PA	<u>(6,035)</u>	
	<u>44,940</u>	<u>3,908</u>
<i>Taxed as Per:</i>		
34,800 @ 20%	6,960	
10,140 @ 40%	4,056	
3,908 @ 40%	<u>1,563</u>	
	12,579	
<u>Less tax paid at source</u>		
PAYE	(10,516)	
Interest	<u>(781)</u>	
<u>Tax Due</u>	<u>1,282</u>	
(W1) Bob: BIK		
Holiday (cost to company)	3,175	
<u>Car</u>		
11,500 x 10%	1,150	
<u>Fuel</u>		
16,900 x 10%	1,690	
<u>Health Insurance</u>	<u>1,250</u>	
	<u>7,265</u>	

Solution 3 (*cont'd*)**Rita: Income Tax Comp 2008/09**

	£	£	£
Net Rental Income	6,810		
BSI (2,025 x $\frac{100}{80}$)		<u>2,531</u>	
Dividends			3,550
PA	<u>(6,035)</u>		<u>- -</u>
	<u>775</u>	<u>2,531</u>	<u>3,550</u>
£2,320 { 775 @ 20%		155	
{ 1,545 @ 10%		154	
£2,531 { <u>986</u> @ 20%		<u>197</u>	
			3,550 @ 10%
		<u>355</u>	
		861	
<u>Less</u> paid at source BSI		<u>(506)</u>	
		355	
<u>Less</u> tax credit on dividends		<u>(355)</u>	
Outstanding tax due		<u>NIL</u>	

Solution 4

In Acceptable Letter Format, marks would be awarded for making points from the following list or other relevant points;

Forms

- Form P11 and subsequent PAYE and NIC liabilities to be returned and paid by employers by 19th of the following calendar month (22nd for electronic returns).
- Where the total TAX/NIC liability is less than £1,500, the employer may pay by 19th of the month following the relevant quarter date.
- The final date for payment of the PAYE and NIC liability is 19th April following the relevant year of assessment (22nd April for electronic returns).
- At the year end, the returns/forms required are:
 - P9D** – detailing expenses and benefits and required for employees earning less than £8,500 pa.
 - P11D** - as above for directors and employees earning more than £8,500 pa.
 - P14/60** – Detailing earnings, tax & NIC deductions and final tax code for each employee
 - P35** – The employer’s annual declaration and certificate (essentially a summary from P14/P60 & the employer’s questionnaire/declaration)
- **P9D / P11D(b)** returned by 6th July following the year of assessment.
- **P14** and **P35** returned to HMRC by 19th May following the year of assessment.
- **P60** returned to the employee by 31st May following the year of assessment.
- The employer must record NIC deductions on P11 and pass over to HMRC by the dates mentioned above. The relevant NIC’s will be the class 1 (primary and secondary) contributions and, where relevant, the class 1A and 1B contributions on earnings, benefits and PAYE settlements respectively.

Existing & New/Joining Employees

- The basis of the calculation for Tax is the employee’s PAYE code.
- For existing employee’s, and joining employee’s with a P45, the tax code and the employee’s cumulative totals are applied using tax tables/software, in order to calculate monthly deductions. NIC deductions are calculated at this stage but this is independent of the employee’s tax code.
- Where an employee doesn’t have a P45, a P46 is completed in order to obtain a P45 and, hence, a tax code for them. In the interim, their deductions are calculated on a week 1 / month 1 basis using an emergency code (as long as this is their only/main employment).
- Vacation work by students may allow no deductions in respect of the employment if an exemption form P38(S) is completed.

Leaving Employees

- Where an employee leaves, details of their cumulative totals for pay & deductions are entered on a P45, part 1 of which is given to the tax office and parts 1a, 2 and 3 to the employee

The Tax Code

- The above mentioned tax code has the basic Personal Allowance as its starting point (£6,035). This code is *increased* in lieu of additional allowances, other taxable deductions or prior over collections and *reduced* in lieu of benefits receivable or prior under collections. A letter is added to the tax code to denote the employees circumstances. e.g. L (basic PA), P (full PA for those aged 65-74), T (non-disclosure of personal circumstances), K (taxable benefits or pension exceed allowances) etc.

Solution 4 (*cont'd*)

General & Record Keeping

- Information required to operate the PAYE system is available from HMRC who operate an incentive scheme to encourage electronic returns and all employers are now required to file end-of-year returns electronically if they have more than 50 employees.
- Records in support of PAYE returns must be kept for at least 3 years after the end of the relevant tax year.

Solution 5 (a)**Q/E 30/06/08**

$$£63,500 \times 93\% \text{ (W1)} = £59,055$$

$$\begin{aligned} \text{Refundable input tax} &= £141,000 + £59,055 \\ &= £200,055 \end{aligned}$$

(Non-refundable residual input tax is greater than the 'de minimus' limit of £625 per month, so no further input tax is recoverable in this quarter)

Q/E 30/09/08

$$£50,550 \times 90\% \text{ (W1)} = £45,495$$

$$\begin{aligned} \text{Refundable input tax} &= £42,000 + £45,495 \\ &= £87,495 \end{aligned}$$

(once again, the 'de minimus' limit breached)

Q/E 31/12/08

$$£9,755 \times 90\% \text{ (W1)} = £8,779$$

$$\begin{aligned} \text{Input tax not attributable to taxable supplies is;} \\ £750 + (£9,755 - 8,779) = £1,726. \end{aligned}$$

$$£1,726 / 3 = 575\text{pm is less than 'de minimus' limit.}$$

This fact renders all input tax (£91,000 + £750 + £9,775 = £101,525) refundable since the amount not attributable to taxable supplies (£1,726) is also less than 50% of all input tax.

Q/E 31/03/09

$$£56,000 \times 88\% \text{ (W1)} = £49,280$$

$$\begin{aligned} \text{Recoverable input tax} &= £123,000 + £49,280 \\ &= £172,280 \end{aligned}$$

(the de minimus limit is breached)

<u>Q/E</u>	<u>Refundable (£)</u>	<u>Non-Refundable (£)</u>
30/06/08 200,055	8,148 + (63,500 - 59,055) = 12,593	
30/09/08 87,495	3,250 + (50,550 - 45,495) = 8,305	
31/12/08 101,525		-----
31/03/09 172,280	26,000 + (56,000 - 49,280) = 32,720	
	561,355	53,618

Solution 5 (*cont'd*)**Annually**

$$£179,825 (\text{£}63,500 + \text{£}50,550 + \text{£}9,775 + \text{£}56,000) \times 90\% (\text{W3}) = \text{£}161,842$$

$$\begin{aligned} (\text{Annual total of input tax directly attributable to taxable supplies + attributable to} \\ \text{taxable supplies from above}) &= \text{£}397,000 + \text{£}161,842 \\ &= \text{£}558,842 \end{aligned}$$

(this means that the *annual* de minimus limit of £625 per month, or £625 x 12 = £7,500 annually, is breached so no further input tax beyond the £558,842 sum is recoverable)

$$\begin{aligned} \text{Cumulative refundable input tax (quarter by quarter)} &\text{£}561,355 \\ \text{Refundable input tax on an annual basis} &\text{£}558,842 \end{aligned}$$

$$\text{Therefore } \textit{overpayment} \text{ due to HMRC} \quad \underline{\text{£}2,513}$$

Annual Adjustment

The amount of input tax recovered under partial exemption rules for each shorter period (quarter) is, initially, provisional and must be reviewed at the end of each 'tax year'. This is required because things like seasonal variation, for example, can affect the partial exemption calculation performed on an annual basis in comparison to the aggregate of partial exemption calculations performed each quarter during the tax year.

Where there are differences between the 'annual' calculation and the sum of the four quarterly calculations, by necessity, there is an annual adjustment which must be accounted for to HMRC and declared in the next VAT account (return) *after* the end of the tax year (not in the last return of the tax year).

Solution 5 (b)**Exempt Supplies (implications, from the following)**

- The total value of such supplies doesn't count towards the 'rolling' 12 month total of supplies in order to determine if a VAT registration required
- Input tax attributable to exempt supplies is not refundable
- Exempt supplies are outside the scope of VAT
- No VAT is added on exempt supplies

Zero Rated Supplies (implications, from the following)

- No VAT is actually added on such supplies (although notionally added at 0%)
- Input tax attributable to such supplies is recoverable
- The value of such supplies does count towards the total of taxable supplies in order to determine if a trader is required to register for VAT.

$$\begin{aligned} (\text{W1}) \quad & (\text{£}1,525,000 / \text{£}1,650,000) \times 100 = 93\% \text{ (Rounding up)} \\ & (\text{£}735,000 / 8185) \times 100 = 90\% \text{ (Rounding up)} \\ & (\text{£}1,310,000 / \text{£}1,465,00) \times 100 = 90\% \text{ (Rounding up)} \\ & (\text{£}1,850,000 / \text{£}2,108,000) \times 100 = 88\% \text{ (Rounding up)} \end{aligned}$$

$$\begin{aligned} (\text{W2}) \quad & \text{Annually} \quad \text{£}5,420,000 \\ & \text{-----} \\ & (\text{£}5,420,000 + \text{£}621,500) \quad \times 100 = 90\% \text{ (rounding up)} \end{aligned}$$

Solution 6**MARTIN****2006/07**

01/02/07 - 05/04/07

(2/9 x £18,900)

Assessable

£

4,200**2007/08**

9 M/E 31/10/07

18,900

01/11/07 - 31/01/08

(3/12 x £24,219)

6,05524,955**2008/09**

Y/E 31/10/08

24,219**O/Lap Periods**

01/02/07 - 05/04/07

4,200

01/11/07 - 31/01/08

6,05510,255**NATHAN****2006/07**

01/12/06 - 05/04/07

(4/13 x £20,465)

6,296**2007/08**

12 M/E 31/12/07

(12/13 x £20,465)

18,890**2008/09**

Y/E 31/12/08

25,416**O/Lap Periods**

01/01/07 - 05/04/07

(3/13 x £20,465)

4,722

Solution 6 (*cont'd*)**OLIVER****2006/07**

01/07/06 - 05/04/07

(9/12 X £16,399)

12,299**2007/08**

Y/E 30/06/07

16,399**2008/09**

Y/E 30/06/08

19,167**O/Lap Periods**

01/07/06 - 05/04/07

12,299**PETER****2005/06**

01/02/06 - 05/04/06

(2/17 X £29,411)

3,460**2006/07**

Actual/Arising 06/04/06 - 05/04/07

(12/17 x £29,411)

20,760**2007/08**

12 M/E 30/06/07

(12/17 x £29,411)

20,760**2008/09**

Y/E 30/06/08

22,010**O/Lap Periods**

01/07/06 - 05/04/07

(9/17 x £29,411)

15,570