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ADMISSION EXAMINATION

Summer 2005

TAXATION II (Northern Ireland)

PAPER, SOLUTIONS

and

EXAMINERS REPORT

NOTES TO USERS ABOUT THESE SOLUTIONS

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

Although they are published by the Institute, it should be noted that neither the Institute nor its Examination Committee necessarily endorses these solutions or agrees 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 the Institute.

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.

The solutions are relevant to the tax rates in the year the Examination was sat. A copy of the tax rates is enclosed with the solutions.

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The Institute of Accounting Technicians in Ireland

Admission Examination : Summer 2005

PAPER 8 : TAXATION II (Northern Ireland)

Tuesday 17th May 2005 – 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.

In this examination paper the £ symbol may be understood and used by candidates in Northern Ireland to indicate the UK pound sterling.

Candidates should answer the paper in accordance with the appropriate provisions up to and including the Finance Act 2004. The provisions of the Finance Act 2005 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 QUESTION 1 (Compulsory) in Section A and ANY THREE of the four questions in Section B. If more than THREE questions are answered in Section B, then only the first three 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 next page.

The following inserts are enclosed with this paper:

- **Multiple Choice Answer Sheet (QUESTION 2)**
- **Form VAT 100 (QUESTION 3)**
- **Tax reference material (NI).**

Section A

Answer QUESTION 1 (Compulsory) in this Section

QUESTION 1 (Compulsory)

Mrs Anne Adams lives at 5 Oakridge Drive, Armagh Co Armagh. She is a company representative with ECLAT Limited a fertiliser manufacturer. Anne is also the proprietor of a flower shop situated in Main Street, Armagh. She has been married for a number of years to Andrew and has two children who attend the nearby secondary school. Anne is assessed to Income Tax on the self-assessment basis. Anne's date of birth is 20th January 1958.

Details of Anne's pay from ECLAT Limited for the tax year ended 5th April 2005, as recorded on her P60 is:

	£	
Salary (See note below)	44,000	
PAYE deducted	15,000	

NOTE

The salary figure included a bonus of £5,000 earned in 2003 but paid in May 2004. ECLAT Limited paid an amount of £474 for private medical insurance for Anne and her family in February 2005. The company also provided Anne with a car, which cost £27,950 when purchased new in 2003. The list price of this car at the date of acquisition was £29,020 and the company pays all the running costs including petrol. Anne travels 20,000 miles annually in the car, which has an agreed CO2 emissions figure of 222g/km. In line with PAYE procedures ECLAT Limited returned a P11D to the Inland Revenue in respect of any benefits in kind payable to Anne.

In addition to her employment with ECLAT Limited Anne had commenced trading on the 1st January 2004 and prepared her first accounts to the 31st March 2005 with the intention to prepare annual accounts to 31st March each year thereafter.

Anne's Profit and Loss Account for her 15 months of trading ended on 31st March 2005 was as follows:

	Notes	£	£
Sales			90,000
Purchases			<u>25,000</u>
			65,000
<i>Expenses:</i>			
Wages		12,000	
Rent and rates		11,600	
Insurance	(1)	1,400	
Light and heat		600	
Repairs and maintenance		300	
Telephone		850	
Motor expenses	(2)	3,400	
Miscellaneous expenses	(3)	2,300	
Depreciation		<u>900</u>	
			(33,350)
Net profit			<u><u>31,650</u></u>

NOTES

(1) *Insurance*

Insurance expenses are as follows:

	£	
Business insurance	500	
Motor insurance	<u>900</u>	
	<u><u>1,400</u></u>	

(2) *Motor expenses*

Andrew helps out in the shop and uses his car to make deliveries to customers. Personal use of this car, which is shared by the couple for use in the shop, has been agreed with H M Inspector of Taxes at 60% of the total annual mileage of 15,000. The car cost £25,000 when purchased new on 1st January 2003. The motoring costs in the accounts all relate to this car. The market value of the car agreed with the Inland Revenue at the commencement of trading at 1st January 2004 is £22,000.

QUESTION 1 (*Cont 'd.*)

(3) *Miscellaneous expenses*

Miscellaneous expenses are as follows:	£
Advertising	1,000
Accountancy	1,100
Speeding fine (Anne)	200
	<u>2,300</u>

(4) Anne has fixed assets comprising shop fittings and equipment, in use in her business at 31st March 2005, which had cost £6,400 on 31st January 2004.

(5) Anne had other income and outgoings relating to the tax year ended 5th April 2005 as follows:

Income:

	Notes	£
Net dividends from UK plc's		1,600
Net building society interest		390
Net bank deposit interest		270
Net rental income	(i)	4,450

Outgoings:

		£
Donation to school (gross)	(ii)	1,000
Pension contribution (gross)	(iii)	5,000
Income Tax payments on account	(iv)	2,000

NOTES

(i) Gross rental income from furnished residential property lettings was £8,650 and the expenses were as follows:

	£
Rates	685
Management fees	765
New central heating	2,000
Insurance	340
Repairs	410

Anne claims her 10% wear and tear allowance from these lettings.

(ii) The net payment was made under Gift Aid to the children's school, which have confirmed that they are an approved body for tax purposes.

(iii) This was paid net to the Midlands Life Company. It was a single premium contribution made on 31st March 2005. Anne would like to claim relief on this as early as possible.

(iv) Anne made payments on account totalling £2,000 in respect of her Income Tax liability for the tax year ended 5th April 2005 on the due dates.

Requirement

(a) Calculate the Capital Allowances available to Anne, assuming that she wishes to maximise her claim for the accounting period ended 31st March 2005.

4 Marks

(b) Compute the Schedule D Case I income of Anne, making all appropriate adjustments in respect of the tax years ended 5th April 2004 and 5th April 2005.

10 Marks

(c) Calculate any balance of Income Tax payable by Anne for the tax year ended 5th April 2005. (*This will involve a calculation of earnings from employment including benefits-in-kind and rental income.*)

22 Marks

(d) Compute the gross amount that Anne is entitled to contribute to her personal pension scheme for the tax year ended 5th April 2005 after taking into account payments she has already made during the tax year.

4 Marks

Total 40 Marks

SECTION B

Answer ANY THREE of the four questions in this Section

QUESTION 2

The following multiple choice questions consists of TEN 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 TEN parts.

N. B. Each part carries 2 marks.

Total 20 Marks

Candidates should answer this question by ticking the appropriate boxes on the special green answer sheet which is supplied with the examination paper.

[1] The phrase "tax avoidance" would be correctly applied to which of the following situations:-

- (a) overstating the allowable Schedule D expenses claim on a tax return.
- (b) failing to register with the Revenue when required to by legislation.
- (c) smuggling drink through customs.
- (d) a taxpayer legitimately transferring investments to their spouse in order to reduce their combined income tax payable as individuals.

[2] Interest received gross by a UK resident individual is taxed under the rules of:-

- (a) Schedule D Case I
- (b) Schedule D Case III
- (c) Schedule D Case IV
- (d) Schedule F

[3] Catherine (aged 52) during the tax year ended 5th April 2005 has the following net income:

	£
Schedule D Case I income	25,000
Earnings from employment (gross)	12,000
Net rental income	3,000
Building society interest	2,000

The allowable personal pension contributions possible by Catherine for the tax year ended 5th April 2005 is:-

- (a) £3,600
- (b) £7,500
- (c) £11,100
- (d) £12,000

[4] DERVLOCK limited provides Edward with a company car. The company pays all the running costs including diesel for the car, which has CO2 emissions of 194g/km. The car had a list price of £30,070 when acquired new in 2002 but the cost to DERVLOCK Ltd after discounts was £29,150. Edward spends in excess of 75% of his time travelling on company business and covers 21,000 business miles annually. The annual benefit in kind charge arising on Edward is:

- (a) £7,870.50
- (b) £8,118.90
- (c) £11,758.50
- (d) £12,006.90

QUESTION 2 (Cont'd.)

- [5] Fred receives a VAT default liability surcharge notice for the late return of his Value Added Tax return for the quarter ended 31st December 2004. Fred had submitted the previous four returns before their due dates. Fred submits his VAT return for the quarter ended 31st March 2005, on 12th May 2005 and the liability which was paid on the same date, turns out to be £16,000. Fred is liable to a VAT surcharge penalty of:-
- (a) £320
 - (b) £480
 - (c) £800
 - (d) £1,600
- [6] Gerard a UK resident individual orders goods for personal use from the a country outside the EU over the Internet. His UK VAT position regarding these goods is:-
- (a) no VAT liability arises in any circumstances
 - (b) no VAT liability arises if their value is less than £300
 - (c) no VAT liability arises if they are posted to Gerard
 - (d) they are liable to UK VAT at point of entry to the UK
- [7] Hilary sold an apartment held as an investment. The contract was dated 31st December 2004. However the purchaser had difficulties raising a loan to buy the property and consequently title to the property did not pass until 29th April 2005 (closing date of the sale). Hilary is obliged to pay Capital Gains tax on any gain arising on the sale on or before:-
- (a) 30th September 2005
 - (b) 31st January 2006
 - (c) $\frac{1}{2}$ on 31st January 2006 and $\frac{1}{2}$ on 31st July 2006
 - (d) 31st January 2007
- [8] Michael purchased a holiday home in Enniskillen. He intends to divide his time equally between his holiday home and his Belfast residence. The market values of both houses are equal. The basis as to which house qualifies for principal private residence relief for Capital Gains Tax, from the date the second home is purchased is determined as:-
- (a) relief is granted in proportion to the time spent in each house
 - (b) relief is available only in respect of the house with the highest market value at the time of the sale of either house
 - (c) Michael makes an election as to which house is to be his principal private residence and notifies his Inspector of Taxes.
 - (d) relief is only granted on the Belfast house as this is deemed to be his principal private residence until it is sold.
- [9] KNAVECOM Limited is a UK resident close company. In 2004 KNAVECOM Limited provided Nicole with the free use of an apartment costing £6,900 rent per annum. The rateable value of this apartment is £900. Nicole is a shareholder (participator) in KNAVECOM Limited but is neither an employee nor director of the company. The tax consequence of this benefit is:-
- (a) no tax effect as Nicole earns less than £8,500 pa from the company.
 - (b) Nicole is deemed to have received a distribution of £6,900 with no tax consequences for the company.
 - (c) Nicole is deemed to have received earnings of £6,900 and the company is required to payroll and account for PAYE on this same amount.
 - (d) Nicole is charged with a benefit in kind of £7,800.
- [10] When entering into a contract with a sub-contractor in the building and other specified industries the main contractor must ensure that the proposed contract is a:-
- (a) contract of employment.
 - (b) contract for the sale of goods.
 - (c) contract for services
 - (d) contract of service

QUESTION 3

NEUTRINO Limited is a UK resident company. Its principal trading activity is the distribution and repair of specialised electronic equipment. NEUTRINO Limited is registered for VAT in the UK and it accounts for VAT on the normal basis. In January – March 2005 it had the following business transactions:-

- (1) It sold a laser machine to QUARK Limited, a Republic of Ireland business customer, for £5,000.
- (2) It sold a scanner to John Boson, a private individual living in the Republic of Ireland, and received full payment of £1,000 in respect of this sale.
- (3) It sold an old photocopier, which had been capitalised as a fixed asset in the company's books to Jack Black, a casual trader, who called to the company looking for scrap. Jack paid cash of £150 including VAT.
- (4) It contracted to supply and fit an alarm for Mary Proton an old age pensioner for £1,100 excluding VAT. The alarm parts cost the company £500 (net).
- (5) It repaired electronic equipment sent to it by L'ECTRON S.A. a French business customer. The repair charge was £2,000 excluding VAT.
- (6) It traded in its commercial van against a new one. The new van cost £18,000 and the garage allowed a trade in value of £12,000 for the old van. Both amounts are VAT inclusive.
- (7) It acquired a new photocopier on hire purchase. The net sales value of the photocopier is £1,500 and is repayable over 36 monthly instalments. The first three instalments of £125 were made in March.
- (8) It purchased electronic spare parts from GRAVITON Limited a Republic of Ireland business supplier, for £8,000.
- (9) It purchased and received diagnostic equipment from MIKON Corp., a Japanese supplier, costing £4,000.
- (10) It pays a hotel accommodation bill amounting to £1,200 including VAT in relation to a business seminar the company directors attended.
- (11) Joe a director of NEUTRINO Limited takes parts for his own use costing £1,250. The selling price of these parts was £1,600 (net).
- (12) The directors provided food and drink costing £2,600 (net) for the grand opening of their new business premises.
- (13) Entertaining potential Japanese customers cost £1000 gross during the quarter.
- (14) A new company car costing £11,000 including VAT was purchased for a member of the sales team. The relevant employee reimburses all private fuel expenses to the company.
- (15) The company provided fully against unpaid sales invoices, which were over 6 months old at the start of the VAT quarter, amounting to £800 (net).
- (16) The company also wrote off a debt of £390, inclusive of VAT, resulting from a December 2004 debtor, which had gone into liquidation in February 2005.

Requirement

(i) Write a brief note on the VAT aspects of each of the above transactions and calculate the VAT amount to be included in the company's VAT return for January - March 2005.

16 Marks

(ii) Complete the VAT return for January - March 2005 (Form VAT 100)

4 Marks

Total 20 Marks

N. B. It can be assumed that all EU business suppliers are VAT registered. Amounts are VAT exclusive unless otherwise stated. Form VAT 100 is enclosed with the examination paper, for the purpose of answering this question.

QUESTION 4

- (a) Robert is married and UK resident in Northern Ireland. During the tax year ended 5th April 2005 he had the following assets transactions:

Robert was an accountant and had operated his practice from his home in Ballymoney. In November 2004 he retired and sold his Ballymoney residence along with the 2 acre garden area and moved to live in Castlerock. 25% of the house was given over to the accountancy practice. This portion of the house had been used for his practice since he acquired it in June 1985 for £160,000. Solicitor costs of £1,200 and stamp duty of £1,600 were incurred. Robert spent a further £15,000 renovating the office in July 1985. In August 2004 he sold the property for £1,400,000. Auctioneer and solicitor costs amounted to £25,000.

Requirement

Calculate Robert's Capital Gains Tax for 2004/2005, assuming that this is the only capital disposal in the period, and that all appropriate elections have been made, and that he wishes to minimise his tax liability as much as possible. Robert's total taxable income after all allowances and relief's for 2004/05 was £17,000. An indexation allowance of 70% between July 1985 and April 1998 can be assumed for this question.

10 Marks

- (b) Ciara sold a plot of land for £120,000 in December 2004. This plot was part of a larger plot, which she had held as an investment property. After the sale the value of the remaining plot was £72,000. Ciara purchased the original plot of land for £50,000 in May 1990. Solicitor's cost and estate agent fees on the original purchase totalled £2,000. Solicitor's cost and estate agent fees on the sale totalled £3,600.

Requirement

Calculate Ciara's Capital Gains Tax position for 2004/05 assuming this is the only capital disposal in the period. Ciara had no other taxable income in the period. Indexation allowance of 29% between May 1990 and April 1998 can be assumed for this question.

10 Marks

Total 20 Marks

QUESTION 5

MARPOT Ltd is a UK resident close company distributing medical equipment. It commenced trading on the 1st October 2003. The directors of the company are Tom Brown and Jim White who also own the company's shares equally. MARPUT has one associate company for tax purposes.

Extracts from the financial statements of MARPUT Ltd for the period 1st October 2003 to 31st December 2004 were as follows:

PROFIT STATEMENT	Notes	2004 £
Sales		1,600,000
Cost of sales		(800,000)
Gross Profit		800,000
Expenses	(1)	<u>320,000</u>
Net Operating Profit		480,000
 <i>Other income:</i>		
Bank deposit interest	(2)	<u>5,000</u>
Profit before taxation		485,000
Taxation provision		<u>100,000</u>
		385,000
Dividend paid	(3)	<u>50,000</u>
Profit retained		<u><u>335,000</u></u>

NOTES

- (1) Expenses are as follows:
- | | £ |
|--|-----------------------|
| Directors' salaries | 100,000 |
| Staff wages | 100,000 |
| Employers NIC on directors | 12,100 |
| Directors' pension contributions accrued at the year end | 37,500 |
| Directors' pension contributions paid during the year | 20,000 |
| Repairs and renewals | 5,100 |
| Entertainment of customers | 6,600 |
| Pre-commencement trading expenses | 4,200 |
| Loss on disposal of fixed assets | 2,000 |
| Depreciation | <u>32,500</u> |
| | <u><u>320,000</u></u> |
- (2) The interest arose on a deposit account opened on the 1st February 2004 and closed on 31st August 2004. This amount shown is the gross interest receivable. The interest was received gross.
- (3) The dividend was paid on 30th September 2004.
- (4) Fixed assets

The fixed asset note attached to the financial statements was as follows:

	Plant and Equipment £	Motor Vehicles £	Total £
Cost:			
Additions	60,000	90,000	150,000
Disposals	-	(17,000)	(17,000)
At 31 st December 2004	<u>60,000</u>	<u>73,000</u>	<u>133,000</u>
Depreciation:			
Charge for period	15,000	17,500	32,500
Depreciation on disposals	-	-	-
At 31 st December 2004	<u>15,000</u>	<u>17,500</u>	<u>32,500</u>
Net book value	<u><u>45,000</u></u>	<u><u>55,500</u></u>	<u><u>100,500</u></u>

QUESTION 5 (Cont'd.)

You can assume that all assets were acquired new in October 2003 unless stated otherwise.

Motor vehicles acquired

	£
Commercial van	24,000
Car BEZ456	37,000
Car BEZ345	17,000
Car HKZ123 (second hand)	12,000
	<u>90,000</u>

Car BEZ345 was disposed of in November 2004. Proceeds received were £15,000. No replacement had been made before the period end.

Requirement

In respect of Corporation Tax for MARPUT Ltd for all periods covered by the financial statements for the period ended 31st December 2004:-

- (i) Calculate the capital allowances and balancing allowances/charges available, assuming the company wishes to maximise its claim.
- (ii) Prepare the corporation tax computations and show the tax payable after making all claims to minimise the tax liability.

6 Marks

14 Marks

Total 20 Marks



STANDARD ANSWER SHEET FOR ALL MULTIPLE CHOICE QUESTIONS

THE INSTITUTE OF
ACCOUNTING TECHNICIANS
IN IRELAND



<p>Candidates are required to insert the following details:</p> <p>Examination Session</p> <p>Examination Number.....</p> <p>Examination Part</p> <p>Examination Paper.....</p> <p>QUESTION NUMBER</p>

To answer each section, please tick appropriate box.

	Part		Part		Part		Part		Part
1	(a) <input type="checkbox"/>	6	(a) <input type="checkbox"/>	11	(a) <input type="checkbox"/>	16	(a) <input type="checkbox"/>	21	(a) <input type="checkbox"/>
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2	(a) <input type="checkbox"/>	7	(a) <input type="checkbox"/>	12	(a) <input type="checkbox"/>	17	(a) <input type="checkbox"/>	22	(a) <input type="checkbox"/>
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	(b) <input type="checkbox"/>		(b) <input type="checkbox"/>		(b) <input type="checkbox"/>		(b) <input type="checkbox"/>		(b) <input type="checkbox"/>
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4	(a) <input type="checkbox"/>	9	(a) <input type="checkbox"/>	14	(a) <input type="checkbox"/>	19	(a) <input type="checkbox"/>	24	(a) <input type="checkbox"/>
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5	(a) <input type="checkbox"/>	10	(a) <input type="checkbox"/>	15	(a) <input type="checkbox"/>	20	(a) <input type="checkbox"/>	25	(a) <input type="checkbox"/>
	(b) <input type="checkbox"/>		(b) <input type="checkbox"/>		(b) <input type="checkbox"/>		(b) <input type="checkbox"/>		(b) <input type="checkbox"/>
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	(d) <input type="checkbox"/>		(d) <input type="checkbox"/>		(d) <input type="checkbox"/>		(d) <input type="checkbox"/>		(d) <input type="checkbox"/>



Value Added Tax Return
For the period
to

SPECIMEN

For Official Use

Registration number

Period

You could be liable to a financial penalty if your completed return and all the VAT payable are not received by the due date.

Due date:

For official use D O R only	
---	--

Fold Here

Before you fill in this form please read the notes on the back and the VAT leaflet "Filling in your VAT return". Fill in all boxes clearly in ink, and write 'none' where necessary. Don't put a dash or leave any box blank. If there are no pence write "00" in the pence column. Do not enter more than one amount in any box.

		£			p
For official use	VAT due in this period on sales and other outputs	1			
	VAT due in this period on acquisitions from other EC Member States	2			
	Total VAT due (the sum of boxes 1 and 2)	3			
	VAT reclaimed in this period on purchases and other inputs (including acquisitions from the EC)	4			
	Net VAT to be paid to Customs or reclaimed by you (Difference between boxes 3 and 4)	5			
	Total value of sales and all other outputs excluding any VAT. Include your box 8 figure	6			00
	Total value of purchases and all other inputs excluding any VAT. Include your box 9 figure	7			00
	Total value of all supplies of goods and related services, excluding any VAT, to other EC Member States	8			00
	Total value of all acquisitions of goods and related services, excluding any VAT, from other EC Member States	9			00
Retail schemes. If you have used any of the schemes in the period covered by this return, enter the relevant letter(s) in this box.					

If you are enclosing a payment please tick this box. <input type="checkbox"/>	DECLARATION: You, or someone on your behalf, must sign below. I, declare that the (Full name of signatory in BLOCK LETTERS) information given above is true and complete. Signature Date 19..... <p style="text-align: center;">A false declaration can result in prosecution.</p>
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CD 2850/N3(09/93)

F 3790(February 1994)

VAT 100

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The Institute of Accounting Technicians in Ireland

Foundation & Admission Examinations : Summer & Autumn 2005

TAXATION PAPERS (Northern Ireland)

TAXATION REFERENCE MATERIAL

FOR TAX YEAR 2004/05

(To be used by candidates in answering the Taxation papers)

INCOME TAX

	<i>Rate</i>
	%
First £2,020	10
Next £29,380	22
Balance (over £31,400).....	40
Savings income rate	20
Dividends higher rate	32½%

ALLOWANCES

	£
Personal	4,745
Blind persons allowance.....	1,560
Married couples	
Elder born before 6 April 1935 to 74.	5,725
75 and over.....	5,795
Both subject to a minimum allowance of	2,210

Where applicable MCA attract tax relief at 10%

Age allowance

Personal (Under 75)	6,830
Maximum income before abatement of relief.....	18,900
Abatement income ceiling	
Personal.....	23,070
Married	30,100
Personal (Over 75)	6,950
Maximum income before abatement of relief.....	18,900
Abatement income ceiling	
Personal	23,310
Married	30,480



RATE OF INTEREST

Official rate of interest 5.0%

SCALE BENEFITS - MOTOR CARS

Percentage of manufacturer's list price	
2004-2005	
CO2 emissions in grams per kilometre (g/km)	% of car's price to be taxed
145	15
150	16
155	17
160	18
165	19
170	20
175	21
180	22
185	23
190	24
195	25
200	26
205	27
210	28
215	29
220	30
225	31
230	32
235	33
240	34
245	35

Car benefit is calculated on a percentage of the list price of the car plus the price of optional accessories when the car was first registered appropriate to the level of the car's CO2 emissions. There is a 3% supplement on diesel cars subject to the maximum charge of 35%.

SCALE BENEFITS - Cars with no approved CO2 emissions figure

<i>Cylinder Capacity of Car</i>	<i>Percentage of car's price to be taxed</i>
	%
Up to 1,400 c.c.	15*
1,401 c.c. to 2,000 c.c.	22*
2,001 c.c. or more	32*
*Plus 3% supplement for diesel cars	

SCALE BENEFITS - FUEL SUPPLIED FOR PRIVATE USE

The same percentage as for car benefit will be applied to the fixed sum of £14,400.

VAT ON PRIVATE FUEL

VAT Due on Private Fuel for Quarterly Accounts

	<i>Petrol</i>	<i>Diesel</i>
	£	£
1,400 c.c. or less	34.55	32.17
1,401 to 2,000 c.c.	43.63	32.17
More than 2,000 c.c.	64.34	40.65

CAPITAL GAINS TAX

	2004/05	2003/04
Annual exemption.....	£8,200	£7,900
Rate.....	Taxed as top slices of income (10% / 20% / 40%)	

RATES OF TAPER RELIEF

Gains on disposals of non-business assets after 5 April 1998

<i>No. of Whole yrs. In qualifying holding Period.*</i>	<i>Percentage reduction available</i>	<i>Percentage of gain chargeable</i>
	%	%
0	0	100
1	0	100
2	0	100
3	5	95
4	10	90
5	15	85
6	20	80
7	25	75
8	30	70
9	35	65
10 or more	40	60

* Including bonus year added for assets held on 17 March 1998

Gains on disposals of business assets 2002/03 onwards

<i>No. of Whole yrs. In qualifying holding Period.</i>	<i>Percentage reduction available</i>	<i>Percentage of gain chargeable</i>
	%	%
0	0	100.0
1	50.0	50.0
2 or more	75.0	25.0

CORPORATION TAX

	Financial Year commencing 31 st March 2004
	%
First £10,000	0
Profits between £10,000 to £50,000.....	23.75
Profits between £50,000 to £300,000.....	19
Next £1,200,000.....	32.75
Over £1,500,000.....	30
Small companies' marginal relief fraction.....	$\frac{11}{400}$
Starting rate marginal relief fraction	$\frac{19}{400}$

PERSONAL RETIREMENT PROVISIONS

PERSONAL PENSION CONTRIBUTIONS (PPC'S)/RETIREMENT ANNUITIES (RA'S)

Limit of Allowable Payment

<i>Age of Taxpayer at the Beginning of Tax Year</i>	<i>(PPC's) Limit of Allowable Payment %</i>	<i>(RA's) Limit of Allowable Payment %</i>
35 or under	17.5	17.5
36 - 45	20.0	17.5
46 - 50	25.0	17.5
51 - 55	30.0	20.0
56 - 60	35.0	22.5
61 and over	40.0	27.5
	Subject to maximum earnings of £102,000	No Limit

Earnings limits and National Insurance contribution rates

	Employee's contribution	Employer's contribution
	<i>Contribution Table Letter A</i>	<i>Contribution Table Letter A</i>
Below £79.00 weekly or Below £342.00 monthly or Below £4,108.00 yearly	Nil	Nil
£79.00 to £91.00 weekly or £342.00 to £394.00 monthly or £4,108.00 to £4,732.00 yearly	0%	0%
£91.01 to £610.00 weekly or £394.01 to £2,643.00 monthly or £4,732.01 to £31,720.00 yearly	11% on earnings above the Earnings Threshold	12.8% on earnings above the Earnings Threshold
Over £610.00 weekly or Over £2,643.00 monthly or Over £31,720.00 yearly	1% on earnings above the UEL	12.8% on all earnings above the Earnings Threshold

*Class 4 NIC 2004/05 Self employed on profits between £4,745 and £31,720 at the rate of 8% and on profits over £31,720 at the rate of 1%. Exemption applies if state pension age was reached by 6 April 2004.



The Institute of Accounting Technicians in Ireland

Admission Examination : Summer 2005

SOLUTIONS TO PAPER 7

TAXATION II (Northern Ireland)

Author : Mr. Alec Johnston, FCA

Solution to question 1(a) - Mrs Anne Adams

Capital Allowances claim

Accounting period of 15 months ended 31/01/05	Pool £	Car with Pte use £	Pte use - 60% £	Capital Allowances £
Additions				
Fixtures 31/01/2004	6,400			
Motor Car 01/01/2004		22,000		
FYA (50%)	(3,200)			3,200
WDA (restricted) x 15/12		(3,750)	2,250	<u>1,500</u>
WDA (25%) x 15/12				
wdv c/fwd	<u>3,200</u>	<u>18,250</u>		
Total capital allowances claimed				4,700

*accept 3/12
wda

Taxation II (NI) Summer 2005 Solutions

Solution to question 1(b)

Schedule D case 1 income computation	£			£
Net profit per accounts period 15m/e 31/03/05				31,650
Add				
Depreciation	900			
Motor insurance (60%)	540			
Motor expanses (60%)	2,040			
Miscellaneous - fines	<u>200</u>			
				<u>3,680</u>
				35,330
Deduct				
Capital allowances				<u>(4,700)</u>
Sch D case 1 adjusted profit				30,630
Y/E 05/04/04		on a monthly basis		Alternatively on a daily basis
Time apportioned profits	3/15	6,126	96/456	6,448
Y/E 05/04/05				
Time apportioned profits	12/15	<u>24,504</u>	365/456	<u>24,517</u>
		<u>30,630</u>		<u>30,965</u> (overlap relief)
				5 days
				365

Taxation II (NI) Summer 2005 Solutions

Solution to question 1(c)

Benefit in kind computation

Car Benefit		£	£	£
petrol vehicle - 222co2				
	30% list price	29,020	8,706	
Car Fuel Benefit	30%	14,400	<u>4,320</u>	
				13,026
Private medical insurance				<u>474</u>
Total Benefit in Kind				13,500

Income Tax Computation

Year ended 5th April 2005

	Earned Income	Non Earned Income	Savings Income	Dividend Income	Total Income	Tax collected
	£	£	£	£	£	£
Salary	44,000					15,000
Bonus						
Benefit in Kind	13,500					
Earnings from employment	<u>57,500</u>				57,500	
Sch D Case 1	24,504				24,504	
	<u>82,004</u>					

Rental Income - Sch A

Gross rents receivable	8,650					
less expenses						
rates	685					
management fees	765					
insurance	340					
repairs	410					
10% wear & tear allowance	<u>797</u>					
	<u>2,997</u>					
Sch A		5,654			5,654	
Bank deposit interest (270 x 100/80)			338		338	68
Building Society interest (390 x 100/80)			488		488	98
Dividends (1,600 x 10/9)				1,778	1,778	178
		<u>82,004</u>	<u>5,654</u>	<u>826</u>	<u>1,778</u>	<u>90,262</u>
Deduct personal allowance		<u>(4,745)</u>			<u>(4,745)</u>	
		<u><u>77,259</u></u>	<u><u>5,654</u></u>	<u><u>826</u></u>	<u><u>1,778</u></u>	<u><u>85,517</u></u>

Tax payable

2,020 x 10%			202.00		
29,380 x 22%			6,463.60		
extended by					
gift aid (1,000) gross 1,000 x 22%			220.00		
personal pension contribution 5,000 x 22%			1,100.00		
		37,400			
(39,859 + 5,654) x 40%		<u>45,513</u>	18,205.20		
		<u>82,913</u>			
savings income = £826 x 40%		826	330.40		
dividends (1,778 x 32.5%)		<u>1,778</u>	<u>577.85</u>		
		<u>85,517</u>			
Total tax payable			27,099.05		
less collected at source					
PAYE			(15,000.00)		
on Savings			<u>(166.00)</u>		
			11,933.05		
tax credit on dividends			<u>(178.00)</u>		
			<u>11,755.05</u>		
Less payments made on account			<u>(2,000.00)</u>		
Tax now due			<u>9,755.05</u>		

Solution to question 1(d)

Personal pension scheme		£
Earned income		82,004
Age at 6 April 2004	25%	
		20,501
Less already paid		(5,000)
Gross further contributions possible		<u>15,501</u>

Solution to question 2 - Multiple choice

- [1] (d) Tsf of income to spouse = tax avoidance
(rest = tax evasion)
- [2] (b) Sch D Case 111
- [3] (c) £11,100 (30%) x £37,000
- [4] (d) $(24 + 3) = 27\% \times (30,070 + 14,400) = £12,006.90$
- [5] (a) £320 (2%)
- [6] (d) Liable to UK tax at point of entry to the UK
- [7] (b) 31/01/2006 (unconditional contract)
- [8] (c) Election forming basis of PPR
- [9] (b) Deemed distribution of £6,900
- [10] (c) Contract for services

Taxation II (NI) Summer 2005 Solutions

Solution to question 3-VAT

Neutrino quarter ended 31.03.05

Output VAT

	Gross £	VAT £	Net £
(1) ROI Sale - business customer get their Vat number & no UK VAT charge necessary	5,000.00	-	5,000.00
(2) ROI - private customer (no VAT number therefore charge UK VAT)	1,000.00	148.94	851.06
(3) Fixed Asset - sale of old photocopier on which VAT claimed on the original purchase	150.00	22.34	127.66
(4) Alarm - charge for the supply and fitting of this	1,292.50	192.50	1,100.00
(5) Repair for EC business customer - again get VAT number (as for part 1 above)	2,000.00	-	2,000.00
(6) Old Van - trade-in equates to the selling price of asset on which VAT reclaimed on acquisition	12,000.00	1,787.23	10,212.77
(8) ROI - purchase from EC business supplier therefore reverse charge rules apply	9,400.00	1,400.00	8,000.00
(11) Goods taken for own use at cost price	1,468.75	218.75	1,250.00
	<u>32,311.25</u>	<u>3,769.76</u>	<u>28,541.49</u>

Input VAT

	Gross £	VAT £	Net £
(4) Alarm - the cost of the materials for this	587.50	87.50	500.00
(6) New Van acquisition - Neutrino Ltd can reclaim the VAT suffered	18,000.00	2,680.85	15,319.15
(7) Photocopier - VAT on the full acquisition price can be reclaimed at time of acquisition	1,762.50	262.50	1,500.00
(8) ROI purchase from a business supplier (see also outputs above)	9,400.00	1,400.00	8,000.00
(9) Japanese purchase - non EC acquisition therefore no Input VAT	4,000.00	-	4,000.00
(10) Hotel bill - VAT can be reclaimed on this business expense	1,200.00	178.72	1,021.28
(11) Goods own use - Input VAT reclaimed but reverse charge (see Output VAT above)	1,468.75	218.75	1,250.00
(12) Grand opening occasion - VAT can be reclaimed as this is an allowable business cost	3,055.00	455.00	2,600.00
(13) Entertainment - No input VAT reclaimable on entertaining	1,000.00	-	1,000.00
(14) Company car - can not reclaim VAT on cars eligible for private use	11,000.00	-	11,000.00
(15) Bad Debt >6 months old and provision in accounts therefore Output VAT originally paid can be reclaimed	940.00	140.00	800.00
(16) Bad Debt < 6 months old therefore no reclaim of VAT due is possible at this point in time	-	-	-
	<u>52,413.75</u>	<u>5,423.32</u>	<u>46,990.43</u>

VAT Reclaimable for quarter

1,653.56

The VAT return follows



Value Added Tax Return
For the period
to

SPECIMEN

For Official Use

Registration number

Period

You could be liable to a financial penalty if your completed return and all the VAT payable are not received by the due date.

Due date: 30 APRIL 2005

For official use
D O R
only

V A T I

01 SEP 2005

Fold Here

NEUTRINO
Q/E 31/3/05

Before you fill in this form please read the notes on the back and the VAT leaflet "Filing in your VAT return". Fill in all boxes clearly in ink, and write 'none' where necessary. Don't put a dash or leave any box blank. If there are no pence write "00" in the pence column. Do not enter more than one amount in any box.

For official use		£	p
VAT due in this period on sales and other outputs	1	2,369	76
VAT due in this period on acquisitions from other EC Member States	2	1,400	00
Total VAT due (the sum of boxes 1 and 2)	3	3,769	76
VAT reclaimed in this period on purchases and other inputs (including acquisitions from the EC)	4	5,423	32
Net VAT to be paid to Customs or reclaimed by you (Difference between boxes 3 and 4)	5	(1,653)	56
RECLAIM			
Total value of sales and all other outputs excluding any VAT. Include your box 8 figure	6	28,541	00
Total value of purchases and all other inputs excluding any VAT. Include your box 9 figure	7	46,990	00
Total value of all supplies of goods and related services, excluding any VAT, to other EC Member States	8	7,000	00
Total value of all acquisitions of goods and related services, excluding any VAT, from other EC Member States	9	8,000	00
Retail schemes. If you have used any of the schemes in the period covered by this return, enter the relevant letter(s) in this box.			

If you are enclosing a payment please tick this box.

DECLARATION: You, or someone on your behalf, must sign below.

I, declare that the
(Full name of signatory in BLOCK LETTERS)
information given above is true and complete.

Signature Date 19.....

A false declaration can result in prosecution.

CD 2850/N3(09/93)

F 3790(February 1994)

VAT 100

Solution to question 4(b)

Ciara

		£
Sales Proceeds	Dec 04	120,000
Fees		<u>(3,600)</u>
		116,400
Deduct		
Cost of property (A/(A+B))		
£50,000 x 120k/(120k + 72k)	May-90	(31,250)
Fees on acquisition		<u>(1,250)</u>
£2,000 x 120k/(120k + 72k)		
Gain before indexation		83,900
Indexation allowance	29%	<u>(9,425)</u>
Gain after indexation		74,475
Taper relief		
May 1998 to Dec 2004 (25% reduction in gain)	25%	(18,619)
(6 yrs + 1 yr extra as pre May 98)		<u> </u>
Chargeable capital gain after taper relief		55,856
Deduct		
Annual exemption		<u>(8,200)</u>
Capital gain subject to taxation		47,656

<i>CGT Payable</i>	£		£
	2,020	10%	202
	29,380	20%	5,876
	16,256	40%	6,503
Total CGT payable			<u><u>12,581</u></u>

Solution to question 5(a) – Marput Ltd

Capital allowances	Pool	Motor Vehicle Pool	Exp Car BEZ456	Exp Car BEZ345	Capital Allowances
12 months ended 30/09/04	£	£	£	£	£
Additions	-	12,000	37,000	17,000	
Additions eligible for FYA	60,000	24,000			
FYA (40%)	(24,000)	(9,600)			33,600
WDA (25%)		(3,000)			3,000
WDA (restricted)			(3,000)	(3,000)	6,000
WDV c/fwd	36,000	23,400	34,000	14,000	
Capital allowances claimed					<u><u>42,600</u></u>
3 months ended 31/12/04					
Disposals at lower of cost or proceeds of sale				(15,000)	
Balancing charge				(1,000)	(1,000)
WDA (25%) x 3/12	2,250	1,463			3,713
WDA (restricted)			750		750
WDV c/fwd	33,750	21,938	33,250		
Capital allowances claimed					<u><u>4,463</u></u>

Taxation II (NI) Summer 2005 Solutions

Solution to question 5(a) (Cont'd)

Sch D Computation - 15 m/e 31/12/04

Profit before taxation		485,000
<i>deduct</i>		
Bank interest		(5,000)
		480,000
add		
Entertainment of customers	6,600	
Loss on disposal of fixed assets	2,000	
Directors pension accrual	37,500	
Depreciation	32,500	
		78,600
		558,600

Adjusted trading profits prior to capital allowances **558,600**

Allocation between accounting periods	12 months ended 30/09/04	3 months ended 31/12/04
	£	£
Sch D Case 1 (before capital allowances allocation)	446,880	111,720
Deduct capital allowances	42,600	4,463
Sch D Case 1	489,480	116,183
Sch D Case VI - Balancing charge		1,000
Sch D Case 111	5,000	
Taxable Income	494,480	117,183

Solution to question 5(b)

	£		£
Corporation Tax Payable - 12m/e 30/09/04	150,000	19%	28,500
(1 associated company)	344,480	32.75%	112,817
			141,317
Check			
At full rate	494,480	30%	148,344
Marginal rate relief (750,000 - 494,480)	255,520	11/400	(7,027)
			141,317
Corporation Tax Payable - 3m/e 31/12/04	37,500	19%	7,125
(1 associated company)	79,683	32.75%	26,096
	117,183		33,221
Check			
At full rate	117,183	30%	35,155
Marginal rate relief 187,500 - 117,183	70,317	11/400	(1,934)
			33,221

EXAMINERS REPORT

Taxation II (Northern Ireland)

SUMMER 2005

General Comment

The overall standard of answers was an improvement over the results of previous years, with an overall average mark of 56%.

Most candidates appeared to be very comfortable with the format of the mandatory income tax question and the absence of the completion of the main SA100 return from this question may have helped push the overall average mark up.

Question 1

This was the mandatory 40 mark question, involving the following:

- computation of capital allowances
- tax adjustment of accounting profits
- computation of the overall income tax liability for the individual concerned including her benefit in kind from employment and net rental income calculation
- computation of net relevant earnings and eligible contribution for pension purposes

The parts of the question that seemed to cause candidates the most problems were:

- 1) Failure to deal with the extended time period correctly for both the capital allowances and Schedule D adjusted profits computation.
- 2) Candidates attempting to deduct other income sources (e.g. benefits in kind, building society interest etc) from the profits when there was no mention of these being included in the accounting profits figure.
- 3) The inclusion of unearned income and in particular rental income and the incorrect exclusion of benefits in kind as part of 'net relevant earnings' for the calculation of personal pension contributions.

It was pleasing that so many candidates dealt correctly with the income tax payers gift aid payments and personal pension payments in the income tax computation as this is an area which has often caused candidates difficulties in the past.

Question 2

This was the usual multiple choice question and involved a mixed spread over the syllabus. By its very nature this requires a sound knowledge of the wider syllabus than some of the other questions and while a number of candidates scored reasonably well, the overall average mark was around 50%. There was no individual part of this question that seemed to cause candidates more problems than the others.

Question 3

This was a relatively simple VAT question, which should have been answered in the traditional manner. Most candidates realised this and answered the question well however a few seemed to forget all their general principles that they needed to follow when answering a traditional VAT question which led to a loss of relatively easy marks often caused by poor layout. The overall standard was good and the question proved a popular choice by candidates.

Candidates should remember that goods taken by an individual for their own use are taxable at cost for VAT purposes, unlike the rule applied under '*Sharkey v Werner*' for income tax.

In addition many candidates failed to read the question properly in places and therefore incorrectly treated figures as gross instead of net for VAT purposes (or vice versa).

Question 4

This was a two-part capital gains tax question covering the disposal of a business asset (office) and the part disposal of a non-business asset (land). In general the overall standard of answer to this question was fairly poor. Too many candidates ignored principal private residence relief on the disposal of the taxpayers main home and even when they didn't ignore this important relief they computed a gain on it and applied non-business taper relief to it.

Among the most common errors were:

- Indexation allowed on the asset was too often calculated on the gain instead of the cost of the asset.
- Many candidates deducted the costs of acquisition from the cost of the asset itself instead of adding these costs and then taking the total cost off the net proceeds received from the sale of the asset.
- Candidates sometimes calculated the attributable cost of the part being disposed of and then ignored their calculation completely and deducted the total costs from proceeds when calculating the CGT payable.

Question 5

This was a corporation tax question, and as usual with tax, candidates did not seem to be as familiar with it as with other taxes. Probably for this reason this question proved to be the least popular of the optional questions.

The extended accounting period caused problems for many candidates especially in their computation of the capital allowances available. Too many candidates revealed their lack of understanding of the net profit figure in the accounts by starting with a figure from the accounts and then deducting items such as interest received not included in that figure.

Several candidates ignored the associated company when calculating the rate of tax/marginal relief.

