

---

## **Taxation II NI**

2<sup>nd</sup> Year Examination

**August 2011**

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



### 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 2011 and may not be reproduced without permission of Accounting Technicians Ireland.

© Accounting Technicians Ireland, 2011.



## **Accounting Technicians Ireland**

**2<sup>nd</sup> Year Examination: Autumn 2011 Paper**

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

**Wednesday 17<sup>th</sup> August 2011 – 2.30 p.m. to 5.30 p.m.**

### **INSTRUCTIONS TO CANDIDATES**

#### **PLEASE READ CAREFULLY**

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

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

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

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

**Candidates should allocate their time carefully.**

**All workings should be shown.**

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

**Answers should be illustrated with examples, where appropriate.**

**Question 1 begins on Page 2 overleaf.**

**The following insert is included with this paper.**

- **Tax Reference Material (NI)**
- **Multiple Choice Answer Sheet (QUESTION 7)**

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

Steve retired in March 2010 and has used his monies and pension lump sums received from retirement to invest in a number of investment properties. These have been subsequently let and details of income and associated expenses are as follows:-

House 1

This property was bought on 1 May 2010. It needed a new roof before it could be let and the cost of this was £5,000. It was let unfurnished for £660 pm, from 1 June 2010 to 30 November 2010. The property was not re-let until 1 January 2011 for rent of £6000 pa (payable monthly in advance) . Expenses in connection with the property included:-

	<b>£</b>
Water rates	320
Buildings insurance	480

House 2

This property was bought on 1 June 2010 and was to be let as a furnished property. Steve spent £4,300 on furniture for the house and was let fully furnished for a year from 1 August 2010. Rent is quarterly in arrears at £8000 pa.

Water Rates on this property to cover the period 1.6.10 – 5.4.11 £240. Wear & tear allowance is to be claimed.

House 3

This property was bought for £45,000 on 1 July 2010 and before the property was let Steve spent £1,000 on routine decoration and £2,300 on furniture. The property was let from 1 August 2010 for £7,800 pa payable monthly in advance. Expenses for the property have been as follows:-

	<b>£</b>	
Water Rates.....	360	(1.7.10 – 5.4.11)
Buildings Insurance .....	440	(1.7.10 – 30.6.11)
Contents Insurance.....	<u>180</u>	(1.8.10 – 31.7.11)
	<u>980</u>	

Wear & Tear allowance is claimable

During the year Steve also rented out one furnished room in his main residence. He received £4,600 in respect of this and incurred allowable expenses of £875.

Steve is also thinking about further investments in the future and is thinking about investing in two furnished holiday lets in the Lake District.

**QUESTION 1** (*Cont'd*)**Required**

- a) Compute Steve's taxable profits in respect of rental income in the year making any claims/allowances to his best advantage. **15 Marks**
- b) Outline the requirement for the properties to be treated as furnished holiday lettings and the income tax treatment of such lettings.

**5 Marks****Total 20 Marks**

**QUESTION 2 (Compulsory)**

Melanie has traded for some years preparing accounts to 30 April each year. Her business has been making profits at the rate of £2300 per month for the last three years but when she commenced trading on 1 May 2003 profits were only earned at the rate of £100 per month for the first twelve months of trading. She has decided to sell her business and is unsure whether to sell on 31 March or 30 April 2011. Melanie has no other income in 2010/11 but expects to take up a job offer at £27,000 in 2011/12.

**Required**

- a) Advise Melanie of the income tax and National Insurance advantages/disadvantages of selling on 31 March instead of 30 April 2011.

**10 Marks**

Sheila began trading as an agent and main manufacturer of high spec costume jewellery.

Trade began on 1 January 2010 and the first accounts have been prepared for twelve months ended 31 December 2010. She had made the following capital purchases in the period:-

<b>Date</b>	<b>Item</b>	<b>£</b>
4.1.10	General Plant	10,000
1.3.10	Energy efficient Air Cooling System	13,600
25.4.10	Delivery Van	11,800
10.6.10	General Plant	41,000
15.7.10	Car CO <sub>2</sub> emissions 170g/km	18,600
4.9.10	General Plant	10,000
24.12.10	Car CO <sub>2</sub> emissions 130g/km	9,000

The first car purchased will be used by Sheila herself. It has been agreed with HMRC that private use will be 30%.

**Required**

- b) Calculate the maximum capital allowances for all periods of account. Assume no claim for temporary first year allowance is made.

**10 Marks****Total 20 Marks**

**QUESTION 3** (*Compulsory*)

- a) Ciaran moved to London to take up a new job offer. He bought a house in the city on 1 July 1987 for £50,000. He lived in it as his principal private residence until 1 January 1995 when his job once again moved to Scotland. He kept his house in London electing instead to rent a flat in Edinburgh. On 1 July 2004 he left his job in Scotland and moved back into his London house. On 1 January 2006, he bought a house in Oxford, which he elected to be his PPR and moved out of his London house. On 1 July 2010 he sold his London house for £510,000.

**Required**

Assuming his income for the year uses all of his basic rate band calculate the CGT payable on the disposal of the residence by Ciaran taking advantage of any relevant relief/allowances.

**10 Marks**

- b) Nuts Ltd has been buying shares in Bolts Ltd. for quite some time. On 1 January 2010, Nuts sold 10,000 ordinary shares in Bolts Ltd for £12 each from its shareholding of 25,000. The shareholding had been built up as follows:-

- 1.1.1989 Bought 17,000 shares @ £5 each  
1.1.1994 Bought 8,000 shares @ £7 each

Relevant indexation factors are:

- 1.1.1989 – 1.1.1994 0.335  
1.1.1994 – 1.1.2010 0.524

**Required**

- 1) Calculate the chargeable gain for Nuts Ltd on the disposal of shares.

**8 Marks**

- 2) Show clearly the pool balance remaining after disposal.

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

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

As part of your training contract, you have been seconded to work in the tax department for a few months. On the way to the airport recently you got a lift with your local taxi firm and got into conversation with the driver. He was telling you in very animated style of his success over the last few years in buying properties, doing them up and selling them. He had believed that he was not obliged to pay tax on the income because HMRC had never asked him to complete a tax return or sent him a demand for any tax due. He has asked you if he can make an appointment at the office to discuss these issues.

**Required**

Draft a note in preparation for this meeting to discuss specifically the following issues:-

1. Whether he could be considered to be carrying on a trade in property development and briefly the factors that HMRC will consider in determining this.

**8 Marks**

2. His general obligation under legislation to report untaxed income to HMRC.

**8 Marks**

3. Possible consequences in terms of interest and penalties on any undisclosed income.

**4 Marks****Total 20 Marks**

**QUESTION 5**

Dolores, a pharmacist, has been employed as a sales rep for many years by Drugs R Us Ltd, at a salary of £33,000 in the year ended 5 April 2010 and £37,500 in the year ended 5 April 2011. Her employer provides her with a diesel engine car cost £21,500 with CO<sub>2</sub> emissions of 227g/km. All diesel is purchased on the company's account at a local garage. Dolores contributes £50 per month for the use of the vehicle.

On 1<sup>st</sup> May 2010 Dolores, whilst she continued her employment, also started up a small business of her own. Results for the year to 30 April 2011 showed an adjusted loss before capital allowance of £41,343 but that she will make profits in future years. Purchases of assets in the year to fit out the premises included:

	£	
Fixtures & fittings	19,200	(purchased from previous owner)
Equipment	25,440	26 January 2011

She wishes to claim capital allowances on these as soon as possible.

Other income in the year to 5 April 2011 includes:-

	£
Bank interest received	3,400
Interest on National Savings & Investment A/C	1,750

**Required**

- a) Calculate Dolores Income Tax liability in 2010/11 on the assumption that she claims to have the loss relieved against total income in the current year.

**15 Marks**

- b) Outline the alternative ways in which the loss sustained can be used.

**5 Marks**  
**Total 20 Marks**

**QUESTION 6**

In each of the following **FIVE** circumstances outline the output VAT payable or Input VAT reclaimable or address the general queries.

1. A mixed supply of goods is sold for £1,400 (excluding VAT). The goods consist of standard rated goods which cost the seller £990 (excluding VAT) to purchase and zero rated goods which cost the seller £30 (excluding VAT) to purchase. What output VAT should be charged on the supply?

**4 Marks**

2. Peter has an annual turnover of £300,000 and is VAT registered. His VAT return for Q/E 31.12.09 is filed late and 2 subsequent returns have been filed late as follows:-

Q/E 30.9.10 Late Payment £12,000  
 Q/E 31.3.11 Late payment £ 500  
 Q/E 31.3.12 Late payment £ 1,100

All other returns/payments have been on time. Outline to Peter his exposure to default surcharge.

**4 Marks**

3. Ian is an employee of Xanachi Ltd. He has the use of a car with CO<sub>2</sub> emissions of 176g/km for one month and a car with CO<sub>2</sub> emissions of 208g/km for two months in Q/E 31.3.11. Xanachi Ltd pay for all the petrol costs in respect of the two vehicles with no contribution from Ian. Total petrol costs for the quarter amount to £300 (inc VAT). What is the VAT effect of the above for Xanachi.

**4 Marks**

4. A solicitor undertakes work for both individuals and for business clients. In a VAT year the split is as follows:-

Business Clients	£35,000 (exc. VAT)
Individuals	£18,000 (inc. VAT)

If he was to operate under the Flat Rate scheme (13% for legal services) show the difference in output VAT charged under this scheme.

**4 Marks**

5. Mr Poulter is registered for VAT in the UK. He only makes taxable supplies. Mr Poulter is supplied with services by a French business on 1 March 2011. The value of the supply is £50,000. What are the VAT consequences of this?

**4 Marks**  
**Total 20 Marks**

**QUESTION 7**

The following multiple choice question 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

- [1] Siobhan commenced trading as a sole trader on 1<sup>st</sup> July 2008. The first accounts were prepared for the 15 months ended 30<sup>th</sup> September 2009 and annually thereafter. Profits from trade for the Income Tax Year 2009/10 will be assessed on:-
- a) Profits of the 1<sup>st</sup> 12 months i.e. y/e 30 June 2009.
  - b) Actual Profits earned in tax year 2009/10.
  - c) Profits of 12 months ended 30 September 2009.
  - d) None of the above.
- [2] In relation to an individual, which of the following statements is NOT true?
- a) A donation under Gift Aid provisions that is payable to an approved charity can increase an individual's trade loss for the year.
  - b) A trade loss for the tax year may be set against any income and capital gains of the individuals for that tax year.
  - c) A trade loss can be carried forward and offset against future years profit from the same trade only.
  - d) Capital allowances may be used to convert a trading profit into a loss that can be offset against other income arising in the same tax year.
- [3] Which of the following is **not** a disposal for Capital Gains Tax purposes?
- a) the sale of your principal private residence.
  - b) the receipt of compensation from an insurance company.
  - c) the sale of a stallion by a stud farm.
  - d) the transfer of a business carried by an individual to a limited company.

**QUESTION 7 (Cont'd)**

- [4] The trading profits of Moose Ltd. for the accounting period of 12 months end 31 March 2011 is £240,000. If Moose Ltd. has two associated companies, corporation tax payable on these profits is:-

- a) £62,650
- b) £50,400
- c) £56,700
- d) £67,200

- [5] A sub-contractor who is VAT registered and has been verified as a "20% net sub-contractor" issues the following invoice in respect of:-

	<b>£</b>
Materials.....	380
Labour.....	<u>540</u>
	920
VAT.....	<u>161</u>
	<u>1081</u>

The net payment due to him will be:-

- a) £864.80
  - b) £1,081
  - c) £1,005
  - d) £973
- [6] Edward sold his investment property on 1<sup>st</sup> January 2010. He will be obliged to pay any C.G.T liability arising on this disposal as follows:-
- a) by 31<sup>st</sup> January 2010.
  - b) in 2 equal instalments 31<sup>st</sup> January 2010 and 31<sup>st</sup> July 2010.
  - c) by 31<sup>st</sup> January 2011.
  - d) in 2 equal instalments 31<sup>st</sup> January 2011 and 31<sup>st</sup> July 2011.
- [7] Under Self assessment business records for the y/e 31<sup>st</sup> December 2010 must be retained by a taxpayer until:
- a) 31 January 2015
  - b) 31 January 2017
  - c) 31 January 2016
  - d) 31 January 2018

**QUESTION 7 (Cont'd)**

- [8] Ciaran already has a surcharge liability notice and submits another VAT return late. This is his second default after issue of the surcharge liability notice and the penalty assessed on Ciaran amounts to £225. The total VAT (excluding penalty) payable on the return was:-

- a) £1,500
- b) £4,500
- c) £11,250
- d) £2,250

- [9] Paul has let out a spare bedroom in his home to a lodger at a weekly rent of £100. He estimates the increase in expenses associated with the lodger is additional bills of £125 annually. If Paul claims all reliefs to which he is entitled he will be assessed to tax on:-

- a) £950
- b) £5,200
- c) £5,075
- d) Nil

- [10] BWC Ltd ceased trading on 31<sup>st</sup> December 2010. Final accounts had been drawn up for the 15 months ended on that date. Final corporation tax assessment will cover:

- a) 15 month ended 31<sup>st</sup> December 2010.
- b) 9 month ended 31<sup>st</sup> December 2010.
- c) 12 month ended 31<sup>st</sup> December 2010.
- d) 3 months ended 31<sup>st</sup> December 2010.

**Total 20 Marks**



## 2<sup>nd</sup> Year Examination: August 2011

### Taxation II NI

### Suggested Solutions

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

#### Suggested Solution 1 Steve

A)

			<u>Assessable Income</u>
	£	£	£
House 1			
Rent receivable ( $660 \times 6 + \frac{6000}{12} \times 3$ )		5,460	
Less allowable expenditure			
Water Rates	320		
Building Insurance	480		
		800	
			4,660
House 2			
Rent Receivable ( $800 \times \frac{8}{12}$ )		5,333	
Less allowable expenditure			
Water Rates	240		
Wear & Tear ( $(5333 - 240) \times 10\%$ )	509		
		749	
			4,584
House 3			
Rent receivable ( $7800 \times \frac{8}{12}$ )		5,200	
Less allowable expenditure			
Redecoration	1,000		
Water Rates	360		
Building Insurance ( $\frac{9}{12}$ )	330		
Content Insurance ( $\frac{8}{12}$ )	120		
Wear & Tear ( $(5200 - 360) \times 10\%$ )	484		
		(2294)	
			2906
			12,150

Steve should claim rent & room relief for the letting of a room in his own home. This would mean that he would be assessed on additional Income of £350.

**b) Furnished Holiday Lettings**

Profits arising from the commercial letting of furnished holiday accommodation are assessable as property income, but the profits are treated as though they arose from a single trade. As a result, separate records must be kept and the profits are not pooled together.

The benefits of this are:

- Any losses created are treated as if they are trading losses and may be offset against other income, in the tax year and/or in the previous tax year.
- Capital allowances may be claimed in respect of the furniture – rather than the 10% wear and tear allowance.
- Certain capital gains tax reliefs may be available, including entrepreneurs' relief.
- It may increase the amount of pension contribution obtaining tax relief.

In order to qualify, the letting of furnished holiday accommodation must be made located in UK or an EEA country, on a commercial basis with a view to making a profit.

There are also 3 specific conditions which must be met to qualify as trading income:

- **140 Day Rule** – The property must be available to the general public as holiday accommodation for at least 140 days in the tax year.
- **70 Day Rule** – The property is actually let for at least 70 days in the tax year, excluding periods of "long-term occupation".
- **31 Day Rule** - The property should not be let to the same members of the public for more than 31 consecutive days. The house cannot be let on longer term occupation (i.e. more than 31 consecutive days) for more than 155 days, unless there are abnormal circumstances.

If an individual has two properties which both satisfy the 31 and 140 day rules but one does not satisfy the 70 day rule, they will be deemed as satisfying the 70 day rule if the average number of days let is at least 70.

**Suggested Solution 2 Melanie****1) Cease 31 March 2011**

<u>YOA</u>	<u>Basis Period/Profits Assessed</u>	<u>£</u>
2010/11	1 May 2009 – 31 March 2011	
	23 X 2,300	52900
	Less overlap (see below)	<u>(1100)</u>
		<u>51800</u>
<u>Overlap Profits on commencement</u>		
	2003/04 – 1.5.03 – 5.4.04	
	2004/05 Y/R 30 April 2004	
	Overlap 11 months @ £100 pm = £1,100	
Tax payable 2010/11		
	Profits from trade	£ 51,800
	Less Personal allowance	<u>(6,475)</u>
		<u>45,325</u>
Tax	37,400 x 20%	7480.00
	7925 x 40%	<u>3170.00</u>
		10650.00
Class 4 NIC	(43875 – 5715) x 8% =	3052.80
	(51800 – 43875) x 1% =	<u>789.25</u>
		<u>13782.05</u>

**2) Cease 30 April 2011**

<u>YOA</u>	<u>Basic Period/Profits assessed</u>	<u>£</u>
2011/12	1.5.10 – 30.4.11	
	12x2,300 =	27,600
	Less overlap (as above)	<u>(1,100)</u>
		<u>26,500</u>
Tax Payable 2011/12		
	Profits from trade	£ 25,500
	Income from employment	27,000
	Less personal allowance	<u>(6,475)</u>
	Taxable Income	<u>47,025</u>
Tax		
	37,400 x 20% =	7480.00
	9625 x 40% =	<u>3850.00</u>
		11,330.00
Class 4 Nic	(26025) – 5715) x 8% =	<u>1,624.80</u>
		<u>12,954.80</u>

**Suggested Solution 2 (Cont'd)**b) **Sheila**

	General Pool	Special Rate Pool	Car >160 g/km	Private Use (30%)	Allowances
	£	£			£
Additions qualifying For A.I.A					
4.1 Plant	10,000				
25.4 Delivery Van	11,800				
10.6 General Plant	41,000				
4.9 General Plant	10,000				
24.12 Car CO2 emissions <160 g/km	<u>9,000</u>				
	81,000				
AIA*	<u>(81,800)</u>			(3,540)	78,260
1.3.10 Energy efficient air cooling		13,600			
Enhanced allowances 100%		(13,600)			13,600
15.7.10 Car CO2 >160 g/km			18,600		
Allowances 10%			<u>(1,860)</u>		<u>1,860</u>
WDV C/F	-	-	<u>16,740</u>		
Allowances Claimed					<u>93,720</u>
AIA					
50,000 * 3/12	12,500				
100,000 * 9/12	<u>75,000</u>				
	<u>87,500</u>				

£

**Suggested Solution 3 Ciaran**

Proceeds	510,000
<i>less cost</i>	<u>(50,000)</u>
Gain before PRR	<u>460,000</u>

Gain chargeable $460,000 \times 4/23 =$	80,000
Less annual exemption	<u>(10,100)</u>
	<u>69,900</u>

CGT payable @ 28% £19,572

	Ownership Years	Actual/Deemed Occupation
1.7.87 – 1.1.95 Actual Occupation	7.5	7.5
1.1.95 – 1.7.04 Working in UK	9.5	4 (Working Elsewhere in U.K 4 years max 3 (absence for any reason)
1.7.04 – 1.1.06 Actual Occupation	1.5	1.5
.1.06 – 1.7.10 Absence	<u>4.5</u> <u>23</u>	<u>3</u> (last years) <u>19</u>

£

b)

Proceeds (10,000 x £12)	120,000
less cost	(56,400)
Indexation allowance (103.312 – 56,400)	<u>(46,912)</u>
Chargeable Gain	<u>16,688</u>

**Suggested Solution 3 (Cont'd)****Share Pool**

	Number	Cost £	Indexed Cost £
1.1.1989 Purchase	17,000	85,000	85,000
Indexation allowance to Jan 1994 $85,000 \times 0.335$			<u>28,475</u>
			113,475
1.1.1994 Purchase	<u>8,000</u>	<u>56,000</u>	<u>56,000</u>
			169,475
Indexation allowance Jan 2010 $169.475 \times$ 0.524			<u>88,805</u>
	25,000	141,000	258,280
Less Disposal 10,000/25,00	<u>(10,000)</u>	<u>(56,400)</u>	<u>(103,312)</u>
	<u>15,000</u>	<u>84,600</u>	<u>154,968</u>

**Suggested Solution 4**

Factors that HMRC consider to establish whether or not a trade is being carried on includes:-

**Frequency of transaction:** a series of individual transactions can indicate trading. For example if an individual sold a car which they owned for 4 years bought a new car and sold it 2 years later, HMRC would not consider it trading. However, if an individual bought and sold cars every month, then it is likely to be trading.

**Subject Matter:** there are some items which are generally held as investments i.e. art, antiques, property and their disposal is subject to capital gains tax. However if the subject matter is something which is not normally held as investment, it is assumed that any profit on its sale is a trading profit and subject to income tax. For example, in the case of *Rutledge v CIR* a taxpayer bought 1 million rolls of toilet paper in a single transaction and sold them for profit. This was deemed to be trading as there is no other justifiable reason to purchase such a large amount of toilet paper.

**Length of Ownership** – If an individual purchases and sells an asset in a short space of time then this may indicate trading.

**Modification to asset to make it more saleable** – If work is done to an asset to make it more saleable then it is likely to be considered trading. For example if an individual buys a property, does it up or renovates and then sells the property, it is likely to be considered as trading.

**Profit Motive** – If an individual enters into transactions with the intention of making a profit then they are likely to be trading.

**The way Asset was Acquired** – If goods are acquired intentionally i.e. purchased, they are likely to be considered trading. However, if goods are acquired unintentionally i.e. through inheritance or gift, any sale is unlikely to be considered as trading.

Please note that ignorance of the law is not regarded as a reasonable excuse for meeting your obligations as a taxpayer. These include the requirement to report untaxed income to HM Revenue and Customs (S7 TMA 1970) regardless of whether they have issued you with a tax return. For the tax year ended 5th April 2011 the deadline for reporting/notifying such income would be 5<sup>th</sup> October 2010.

Failure to make such a notification may mean penalties (see below). Where income tax had been underpaid, HM Revenue & Customs will also seek to charge interest from the proper due date for any under-payment of the tax due until the date this tax is actually paid. Under Self Assessment tax is normally paid in two half-yearly installments (payments on account) on 31<sup>st</sup> January in the tax year and on 31<sup>st</sup> July following the end of the tax year. These payments are normally initially based on the tax liability of the preceding year with any catch up/balancing payment becoming due on 31<sup>st</sup> January following the end of the tax year.

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

Assuming you have been receiving a taxable surplus arising from this rental income for a number of years, you may be liable to a considerable amount of interest. I would therefore suggest that you consider making a payment on account of the tax due, in order to stop further interest accruing and I will furnish you with an estimate of this tax in the near future.

As I have already informed you HM Revenue & Customs have the statutory power to impose penalties where tax has been lost as a result of the taxpayer's negligence or fraud. The maximum penalty that may be imposed under S7 TMA, for failing to notify your liability to tax by the due date is an amount equal to the amount underpaid. Therefore if the tax underpaid was £6,500 then the maximum penalty that can be imposed is a further £6,500. HM Revenue & Customs can reduce such penalties where a settlement is reached with a taxpayer without formal proceedings being taken. I would therefore advise that a full and prompt disclosure of your tax liability is best so that penalties can be mitigated as much as possible.

**Suggested Solution 5**a) **Dolores**

1. Loss available for Relief	£
Adjusted Loss	41,343
Add capital allowances	
A.I.A (19200 + 25,440)	<u>44,640</u>
	<u>85,983</u>

Loss in 2010/11  $85,983 \times \frac{11}{12} = 78817$

## 2. Income Tax computation

	£	N/S	S	Div
Earnings/Salary	37,500	37,500		
Car Benefit (21,500x35% - 50 * 12)	6,925	6,925		
Fuel Benefit 18,000 x 35%)	6,300	6,300		
Bank Interest (3400/0.80)	4,250		4,250	
Int of National Savings Inv A/c	<u>1,750</u>			1,750
	56,725	50,725	4,250	
Less loss relief against				
General income	<u>(56,725)</u>	<u>(50,725)</u>	<u>(4,250)</u>	<u>(1,750)</u>
Net income	-	-	-	-

## b) Unrelieved Loss

	£
Loss as calculated	78,817
Less set off against current year	<u>(56,725)</u>
Unrelieved Balance	<u>22,092</u>

Relief of the remaining loss may be obtained

- 1) Carry back against earlier profits for a maximum of 12 months. Claim against income (before gift aid) arising in the preceding year.
- 2) Carry forward against future trading profits from the same trade.

Where no claim is made trade losses will automatically be carried forward.

**Suggested Solution 6****VAT**

- 1 Mixed Supply  
 SR Goods  
 Apportioned selling price  $1400 \times \frac{990}{1020} = 1358.82$   
 Out put VAT chargeable = £237.79  
 Z/R Goods No VAT Chargeable
- 2 Peter  
 Surcharge liability notice issued 31.12.09. Surcharge period to extend to 31.12.10  
 Q/E 30.9.10 1<sup>st</sup> offence in surcharge  
 Penalty 2% x 12,000 = £240  
 Since £240 is less than the £400 de-minimis limit it will not be collected by HMRC  
 Surcharge period extended to 30.9.11  
 Q/E 31.3.11 2<sup>nd</sup> offence in surcharge period  
 Penalty 5% x 500 = £25  
 As above < £400 will not be collected  
 Surcharge period extend to 31.3.12  
 Q/E 31.3.12 3<sup>rd</sup> offence in surcharge period  
 Penalty 10% x 1,100 = £110  
 De-minimis Limit does not apply to penalties @ 10%/15% therefore this will be collected. Peter will have to submit all for quarterly VAT returns to 31.3.13 on time for surcharge notice to be lifted.
- 3 Ian
- |  |                |
|--|----------------|
| <u>Output VAT</u>                                      | £              |
| Vehicle 1 $340 \times \frac{1}{3} \times \frac{7}{47}$ | 16.88          |
| Vehicle 2 $425 \times \frac{2}{3} \times \frac{7}{47}$ | 42.20          |
|  | <u>59.08</u>   |
| <u>Input VAT</u>                                       |                |
| $300 \times \frac{7}{47}$                              | = <u>44.68</u> |
- 4 Flat Rate Scheme
- |                                |               |
|--------------------------------|---------------|
| Gross Sales for period         | £             |
| Business $35,000 \times 1.175$ | 41,125        |
| Individuals                    | <u>18,000</u> |
|                                | <u>59,125</u> |
- Under the Flat Rate scheme he would account for Output VAT of  $59,125 \times 13\% = £7686.25$   
 Under Normal VAT rules Output VAT would be:-
- |  |                  |
|--|------------------|
| Business Clients $35,000 \times 17\frac{1}{2}\%$ | £6,125,00        |
| Individuals $18000 \times \frac{7}{47}$          | <u>£2,680,85</u> |
|  | <u>£8805,85</u>  |

**Suggested Solution 6** (Cont'd)

5)

Mr Poulter will have to account for Output tax of  $50,000 \times 17 \frac{1}{2}\% = \text{£}8,750$  on the acquisition and can treat his as Input Tax on the same return. The reverse charge is therefore neutral for him.

Question	1	C
Q	2	A
Q	3	C
Q	4	A
Q	5	D
Q	6	C
Q	7	B
Q	8	B
Q	9	A
Q	10	D

$$\text{Q4} \quad \frac{1,500,000}{3} = 500,000 \quad \frac{300,000}{3} = 100,000$$

$$\begin{aligned} \text{PCTCT} &= 240,000 \\ \text{CT Payable@ 28\%} &= 67,200 \\ \text{Less MR} & \\ (500,000 - 240,000) \times 7/400 &= (4,550) \\ \text{C T Payable} &= \underline{62,650} \end{aligned}$$

## 2<sup>nd</sup> Year Examination: August 2011

### Taxation II NI

### Examiner's Report

#### General Comment

It must be said that it is always disappointing when students present for examination clearly unprepared in key areas of the syllabus. This sitting indeed demonstrated this insofar as of the 62 students presenting only 58 /59 actually answered all three compulsory questions! Once again it must be emphasised that it will not be possible for students to expect to pass where there are clearly large knowledge gaps. An average mark of 44% and pass % of only 42 % clearly demonstrates these problems.

#### Summary Stats

	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q5</u>	<u>Q6</u>	<u>Q7</u>	<u>TOTAL</u>
Av Mark	10	7	8	12	10	11	8	44
No. Attempting	58	59	58	16	41	24	43	62

<u>MARKS RANGE</u>	<u>No. Achieving</u>	<u>%</u>	<u>2011(MAY)</u> <u>%</u>
5-49	36	58	38
50-59	19	31	32
60+ (Top mark 77)	7	11	30
	62	100	100

#### QUESTION 1

This was a question that examined candidate's knowledge of the rules for assessment of Rental Income. A lot of students made a reasonable attempt at this question but key areas to pay attention to in future would be:

- (1) Any items of capital expenditure are not deductible
- (2) The need to apportion revenue expenditure where appropriate.
- (3) The calculation and allowance for Wear & Tear on furnished properties

The three specific rules for the determination of whether or not a property could be considered a Furnished Letting (part b) were clearly not known by a number of candidates.

**QUESTION 2**

This question was the question that scored least of all questions on the paper and it was alarming that literally only a handful of students recognised that part a to the question was testing the Income Tax cessation rules ! Discussion about Entrepreneur's Relief was in no way relevant to the question which specifically asked about the Income Tax and NIC implications of ceasing on either 31 March or 30 April. Any attempt at calculating the difference between a 2011/2012 cessation compared to a 2010/2011 cessation would have scored well in this question.

Part b to the question which was awarding 10 marks for a Capital Allowance computation did little to increase the scores on this question. Students must acquaint themselves with the layout and detailed rules for a claim for Capital Allowances as this will continue to be a popular examination topic. Specifically candidates showed

- (1) A failure to recognise rules for cars <160 g/km eligible for AIA
- (2) They were unaware of the ability to claim 100% allowance for Energy Efficient assets (not AIA)
- (3) Failure to apportion AIA where there was a straddling of different tax years.
- (4) Failure to recognise a deduction for private use of assets.

**QUESTION 3**

This Capital Gains Tax question examined two key areas of CGT : Principal Private Residence rules and disposals of shares from a share pool. Two main issues were highlighted here:

- (1) Recognising the detailed rules regarding periods of Deemed Occupation and the reduction of the Gain by the appropriate fraction (NOT apportioning the Proceeds by the fraction)
- (2) There was no attempt to index the cost of shares and indeed the dealing with share pool in general was poor.

**QUESTION 4**

This question was only answered by 26% of all candidates which was disappointing as there were a lot of marks available for the candidate's ability to recount the Badges of Trade and an outline of penalties for non disclosure of income. Those who did answer this question generally scored well.

**QUESTION 5**

This question was a very popular question answered by 66% of all candidates as an optional question. While a lot dealt well with the general Income Tax question well a lot of marks were lost in not recognising the 2010/2011 Loss available for relief against general income and the fact that this loss was increased by any Capital Allowances available.

**QUESTION 6**

The VAT question once again this sitting was generally answered well but a couple of issues proved difficult for a lot of candidates :

- (1) Recognising a Mixed Supply in part a and knowing how to calculate correctly the Output VAT on it.
- (2) While a lot of students recognised Surcharge Penalties no attempt was made to calculate them.

**QUESTION 7**

The Multiple Choice question was the most popular question on the optional Section B of the paper with 69% of candidates electing to answer it. Once again it must be emphasised that there is no negative marking in a multiple choice question therefore students MUST answer all 10 questions. The correct answer is there even at a guess!