

iati



FOUNDATION EXAMINATION

Autumn 2003

**TAXATION I
(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.

This publication is copyright 2003 and may not be reproduced without the permission of the Institute.

© The Institute of Accounting Technicians in Ireland, 2003.

The Institute of Accounting Technicians in Ireland

Foundation Examination : Autumn 2003

PAPER 5 : TAXATION 1 (Northern Ireland)

Friday 29th August 2003 - 9.30 a.m. to 12.30 p.m.

INSTRUCTIONS TO CANDIDATES

PLEASE READ CAREFULLY

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

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 2002. The provisions of the Finance Act 2003 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 ANY FIVE of the six questions. If more than FIVE questions are answered, then only the first five 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 question answer sheet (QUESTION 6)**
- **Tax reference material.**

Taxation I (NI) Autumn 2003 Paper

Answer ANY FIVE of the SIX questions

QUESTION 1

Albert, Brad and Chris made a net gift aid donation of £780.00 each to a national charity in the tax year 2002/2003. Each person is single and aged under 50 years.

Their incomes are as follows:

	Albert	Brad	Chris
	£	£	£
Schedule E	36,000	20,000	15,000
Net bank interest	2,000	16,000	5,000
Net UK dividends	2,000	4,000	2,000

Requirement

Show the tax position of each of the above individuals for the tax year 2002/2003.

Total 20 Marks

QUESTION 2

The following information relates to the employees of DRAKE Ltd. for tax month 9 of tax year 2002/2003:

	Edward	Frank	George
	£	£	£
Gross salary to date.....	83,974.95	11,999.97	35,598.82
Tax paid to date.....	28,537.44	1,704.90	10,344.70
Er and Ee NIC to date.....	11,434.71	1,863.90	5,726.21
Ee NIC to date	1,935.00	855.00	1,935.00
Tax code number.....	141L/WK1	461L	K104
NIC table letter	A	A	A

The salaries due for tax month 10 are as follows:

	£
Edward	8,075.64
Frank	1,333.33
George.....	3,863.23

Requirement

Compute the net salaries due to Edward, Frank and George for tax month 10.

Total 20 Marks

QUESTION 3

(a) In relation to Value Added Tax, write *brief* notes on each of the following:

(i) The Cash Accounting Scheme

5 Marks

(ii) The Annual Accounting Scheme

5 Marks

(b) The following information relates to Kevin who is a VAT registered trader. Kevin accounts for VAT in the normal manner and is in the process of preparing his VAT return for the quarter ended 31st March 2003:

(i) Sales invoices totalling £128,000 were issued in respect of Standard Rated Sales. Kevin offered a discount of 2.5% for prompt payment.

(ii) On 15th March 2003, Kevin received an advance deposit of £4,500 in respect of a contract which was due to be completed during May 2003. The total value of the contract was £10,000.

(iii) Kevin incurred Standard Rated expenses of £74,800. This includes £4,200 for entertaining customers.

(iv) On 31st March 2003, Kevin wrote off as a bad debt £12,000 due from a customer. The debt was in respect of three invoices, each for £4,000, the invoices were due for payment on 15th August, 15th September and 15th October respectively.

(v) Kevin purchased a car on 1st January 2003 for £9,800 for the use of his sales manager who is provided with free petrol for private mileage. The relevant quarterly scale charge is £226.

NOTE: The above figures are inclusive of VAT, where appropriate.

Requirement

Calculate the VAT payable by Kevin for the quarter ended 31st March 2003.

10 Marks
Total 20 Marks

QUESTION 4

Luke aged 45, has been given the choice of two alternative terms of employment by MADOX Ltd. Luke will be expected to drive 25,000 miles during 2002/2003 on company business.

Offer One

Luke will receive a salary of £30,000 and will be provided with a new 1,300cc car with a list price of £18,400, the CO2 emissions of which are 195g/km. The company will pay for all running costs including petrol. Luke will pay the company £50 per month for the use of the car.

Offer Two

Luke will receive a salary of £32,000 but will use his own car for business purposes for which an allowance of 22p per mile will be paid by MADOX Ltd. The Fixed Profit Car Scheme Rates to be used as a basis of an expense claim are 40p per mile for the first 10,000 miles and 25p per mile thereafter.

Requirement

Calculate the Income Tax payable by Luke in *each* of the above situations.

Total 20 Marks

Taxation I (NI) Autumn 2003 Paper

QUESTION 5

Nelson has been self employed for many years and decides to retire on his 60th birthday on 31st July 2002. His recent profits, adjusted for Income Tax, have been:

	£
1 st May 1998 to 30 th April 1999	90,000
1 st May 1999 to 30 th April 2000	80,000
1 st May 2000 to 30 th April 2001	45,000
1 st May 2001 to 31 st July 2002.....	10,000

The overlap profits brought forward are £8,000.

In the tax year Nelson received net bank interest of £2,000 and net UK dividends of £800. He paid £500 (net) to a national charity under the gift aid scheme.

Requirement

Calculate the Income Tax payable by Nelson for the tax year 2002/2003.

Total 20 Marks

QUESTION 6

The following multiple choice question consists of TEN parts each of which is followed by the 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] In the tax year 2002/2003, Norman's employer paid private medical insurance on his behalf of £480. During the year, Norman required hospital treatment for which the insurance company paid £750. The benefit in kind assessable in the tax year 2002/2003 is: -
- (a) nil
 - (b) £270
 - (c) £750
 - (d) £480
- [2] Penny is married and aged 61. She is in full time employment and receives a salary of £36,000 per annum. Her employer calculates Class 1 NIC by reference to: -
- (a) Table D
 - (b) Table C
 - (c) Table B
 - (d) Table A
- [3] The Standard Rate of VAT is 17.5%. The VAT fraction for computing the VAT element in Standard Rated goods or services is: -
- (a) 5/17
 - (b) 17/5
 - (c) 47/4
 - (d) 7/47

QUESTION 6 (Cont'd.)

- [4] Quinn is a VAT registered person and accounts for VAT in the normal manner. He provides a service to a customer in the Republic of Ireland who does not provide a VAT registration number. For the purposes of VAT, Quinn must show this transaction as a: -
- (a) Zero Rated Sale
 - (b) Exempt Supply
 - (c) Standard Rated Sale
 - (d) Self-Supply
- [5] Ronnie is an employee of Scanners Ltd and receives a salary in excess of £8,500 per annum. The company operates a staff loan scheme at a preferential interest rate of 2% per annum. In December 2001, Ronnie borrowed £6,000 for personal expenditure. The loan is for a period of five years with no repayment of capital for the first two years. The benefit in kind assessable for the tax year 2002/2003 is: -
- (a) nil
 - (b) £300
 - (c) £180
 - (d) £120
- [6] VAT on the supply of domestic fuel or power is charged at the rate of: -
- (a) 5%
 - (b) 8%
 - (c) 10%
 - (d) 17.5%
- [7] In the tax year 2002/2003, the upper rate of Income Tax chargeable on tax-credit inclusive dividends is: -
- (a) 20%
 - (b) 22%
 - (c) 40%
 - (d) 32.5%
- [8] Thomas is a single man aged 68 in the tax year 2002/2003. His total income from all sources is £18,300. The age related personal allowance due to Thomas for the tax year is: -
- (a) nil
 - (b) £4,615
 - (c) £5,900
 - (d) £6,100
- [9] Violet is aged 44 and is a self-employed florist. In the tax year 2002/2003, her profits for tax purposes are £35,000. The amount of Class 4 NIC payable by Violet is: -
- (a) £4,615.00
 - (b) £2,450.00
 - (c) nil
 - (d) £1,806.35
- [10] Walter commenced self-employment on 1st January 2002. His profits have been as follows: -

	£
Period ended 30 th June 2002.....	3,000
Year ended 30 th June 2003	17,000

The overlap profits are:

- (a) £10,000
- (b) £8,500
- (c) £3,000
- (d) £1,500

STANDARD ANSWER SHEET FOR ALL MULTIPLE CHOICE QUESTIONS

THE INSTITUTE OF
ACCOUNTING TECHNICIANS
IN IRELAND



Candidates are required to insert the following details:

Examination Session

Examination Number.....

Examination Part

Examination Paper.....

QUESTION NUMBER

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"/> |
| (b) <input type="checkbox"/> | (b) <input type="checkbox"/> | (b) <input type="checkbox"/> | (b) <input type="checkbox"/> | (b) <input type="checkbox"/> |
| (c) <input type="checkbox"/> | (c) <input type="checkbox"/> | (c) <input type="checkbox"/> | (c) <input type="checkbox"/> | (c) <input type="checkbox"/> |
| (d) <input type="checkbox"/> | (d) <input type="checkbox"/> | (d) <input type="checkbox"/> | (d) <input type="checkbox"/> | (d) <input type="checkbox"/> |
| 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"/> |
| (b) <input type="checkbox"/> | (b) <input type="checkbox"/> | (b) <input type="checkbox"/> | (b) <input type="checkbox"/> | (b) <input type="checkbox"/> |
| (c) <input type="checkbox"/> | (c) <input type="checkbox"/> | (c) <input type="checkbox"/> | (c) <input type="checkbox"/> | (c) <input type="checkbox"/> |
| (d) <input type="checkbox"/> | (d) <input type="checkbox"/> | (d) <input type="checkbox"/> | (d) <input type="checkbox"/> | (d) <input type="checkbox"/> |
| 3 (a) <input type="checkbox"/> | 8 (a) <input type="checkbox"/> | 13 (a) <input type="checkbox"/> | 18 (a) <input type="checkbox"/> | 23 (a) <input type="checkbox"/> |
| (b) <input type="checkbox"/> | (b) <input type="checkbox"/> | (b) <input type="checkbox"/> | (b) <input type="checkbox"/> | (b) <input type="checkbox"/> |
| (c) <input type="checkbox"/> | (c) <input type="checkbox"/> | (c) <input type="checkbox"/> | (c) <input type="checkbox"/> | (c) <input type="checkbox"/> |
| (d) <input type="checkbox"/> | (d) <input type="checkbox"/> | (d) <input type="checkbox"/> | (d) <input type="checkbox"/> | (d) <input type="checkbox"/> |
| 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"/> |
| (b) <input type="checkbox"/> | (b) <input type="checkbox"/> | (b) <input type="checkbox"/> | (b) <input type="checkbox"/> | (b) <input type="checkbox"/> |
| (c) <input type="checkbox"/> | (c) <input type="checkbox"/> | (c) <input type="checkbox"/> | (c) <input type="checkbox"/> | (c) <input type="checkbox"/> |
| (d) <input type="checkbox"/> | (d) <input type="checkbox"/> | (d) <input type="checkbox"/> | (d) <input type="checkbox"/> | (d) <input type="checkbox"/> |
| 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"/> |
| (c) <input type="checkbox"/> | (c) <input type="checkbox"/> | (c) <input type="checkbox"/> | (c) <input type="checkbox"/> | (c) <input type="checkbox"/> |
| (d) <input type="checkbox"/> | (d) <input type="checkbox"/> | (d) <input type="checkbox"/> | (d) <input type="checkbox"/> | (d) <input type="checkbox"/> |

The Institute of Accounting Technicians in Ireland
Foundation & Admission Examinations : Autumn 2003

TAXATION PAPERS (Northern Ireland)

TAXATION REFERENCE MATERIAL
FOR TAX YEAR 2002/03

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

INCOME TAX	
	<i>Rate</i>
	%
First £1,920	10
Next £27,980	22
Balance (over £29,900)	40
Savings income rate	20
Dividends higher rate	32 ½%

ALLOWANCES	
	£
Personal	4,615
Married couples - tax reduction	
65 - 74	546.50
75 and over	553.50
Age allowance	
Personal (Under 75)	6,100
Maximum income before abatement of relief	17,900
Abatement income ceiling	
Personal	20,870
Married	27,580
Personal (Over 75)	6,370
Maximum income before abatement of relief	17,900
Abatement income ceiling	
Personal	21,410
Married	28,280
Children's tax credit	
Main Rate	5,290
Baby Rate	10,490



RATE OF INTEREST

Official rate of interest 5.0%

SCALE BENEFITS - MOTOR CARS

Percentage of manufacturer's list price	
2002-2003	
CO2 emissions in grams per kilometre (g/km)	% of car's price to be taxed
165	15
170	16
175	17
180	18
185	19
190	20
195	21
200	22
205	23
210	24
215	25
220	26
225	27
230	28
235	29
240	30
245	31
250	32
255	33
260	34
265	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

SCALE BENEFITS - FUEL SUPPLIED FOR PRIVATE USE

<i>Cylinder Capacity of Car</i>	<i>Cash Equivalent</i>	
	<i>Petrol</i>	<i>Diesel</i>
	£	£
Up to 1,400 c.c.	2,240	2,850
1,401 c.c. to 2,000 c.c.	2,850	2,850
2,001 c.c. or more	4,200	4,200

Taxation 1 (NI) Autumn 2003 Tax Reference Material

VAT Due on Private Fuel for Quarterly Accounts

	<i>Petrol</i>	<i>Diesel</i>
	£	£
1,400 c.c. or less	33.65	31.57
1,401 to 2,000 c.c.	42.59	31.57
More than 2,000 c.c.....	62.85	39.91

CAPITAL GAINS TAX

	2002/03	2001/02
Annual exemption.....	£7,700	£7,500
Rate.....	Taxed at top slices of income (10% - 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 2002 %
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.....	11/400

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 Paymentt %</i>	<i>(RA's) Limit of Allowable Payment %</i>
35 or less	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 - 75	40.0	27.5
	Subject to maximum earnings of £97,200	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 £75.00 weekly or Below £325.00 monthly or Below £3,900.00 yearly	Nil	Nil
£75.00 to £89.00 weekly or £325.00 to £385.00 monthly or £3,900.00 to £4,535.00 yearly	0%	0%
£89.01 to £575.00 weekly or £385.01 to £2,491.00 monthly or £4,535.01 to £29,900.00 yearly	10% on earnings above the Earnings Threshold	11.8% on earnings above the Earnings Threshold
Over £575.00 weekly or Over £2,492.00 monthly or Over £29,990.00 yearly	10% on earnings above the Earnings Threshold, up to and including the UEL then NIL on earnings above the UEL	11.8% on all earnings above the Earnings Threshold

* Class 4 NIC 2002/2003 Self employed on profits between £4,615 and £30,420.....7%
Maximum amount payable £1,806.35. Exemption applies if state pension age was reached by 6 April 2002.



The Institute of Accounting Technicians in Ireland

Foundation Examination : Autumn 2003

SOLUTIONS TO PAPER 5

TAXATION 1 (Northern Ireland)

Author : Author : Mr Tim Bennett

Solution to question 1 (Albert's Tax position)

Income	£	£	£
Employments and Directorships (PAYE), minus expenses	36,000.00		
UK Interest (before tax)	2,500.00		
UK Dividends & tax credits	2,222.00		
Total Income		40,722.00	
Deductions and Allowances			
Personal Allowance	4,615.00		
Total Deductions and Allowances		<u>4,615.00</u>	
Taxable Income		<u>36,107.00</u>	

Calculation of Income Tax

Basic rate limit has been increased by £1,000.00 to £30,900.00 for gift aid payments.

This reduces the amount of income charged to higher rates of tax.

Non-savings income etc.	1,920.00	@ 10% =	192.00
	28,980.00	@ 22% =	6,375.60
Savings (other than Dividend income) etc.	485.00	@ 40% =	194.00
	0.00	@ 10% =	0.00
	0.00	@ 20% =	0.00
Dividend income etc.	2,500.00	@ 40% =	1,000.00
	0.00	@ 10% =	0.00
	<u>2,222.00</u>	@ 32.5% =	722.15
Taxable Income	<u>36,107.00</u>		
Income Tax			<u>8,483.75</u>
Income Tax due after Allowances and Reliefs			8,483.75
minus non-payable tax credits on dividends			222.20
plus Class 4 National Insurance contributions			0.00
Income Tax and Class 4 National Insurance contributions			<u>8,261.55</u>
minus tax deducted at source from			
UK Interest		500.00	
Total tax deducted at source			<u>500.00</u>
Income Tax and Class 4 National Insurance contributions due			<u>7,761.55</u>

Solution to question 1 continued on next page

Solution to question 1 (Cont'd)

Brad's tax position

Income	£	£	£
Employments and Directorships (PAYE), minus expenses	20,000.00		
UK Interest (before tax)	20,000.00		
UK Dividends & tax credits			
Total Income	4,444.00		
		44,444.00	
Deductions and Allowances			
Personal Allowance	4,615.00		
Total Deductions and Allowances		4,615.00	
Taxable Income		<u>39,829.00</u>	

Calculation of Income Tax

Basic rate limit has been increased by £1,000.00 to £30,900.00 for gift aid payments.

This reduces the amount of income charged to higher rates of tax.

Non-savings income etc.	1,920.00	@ 10% =	192.00
	13,465.00	@ 22% =	2,962.30
Savings (other than Dividend income) etc.	0.00	@ 10% =	0.00
	15,515.00	@ 20% =	3,103.00
Dividend income etc.	4,485.00	@ 40% =	1,794.00
	0.00	@ 10% =	0.00
	4,444.00	@ 32.5% =	1,444.30
Taxable Income	<u>39,829.00</u>		
Income Tax			<u>9,495.60</u>

Income Tax due after Allowances and Reliefs	9,495.60
minus non-payable tax credits on dividends	444.40
plus Class 4 National Insurance contributions	<u>0.00</u>

Income Tax and Class 4 National Insurance contributions	9,051.20
--	----------

minus tax deducted at source from	
UK Interest	4,000.00
Total tax deducted at source	4,000.00

Income Tax and Class 4 National Insurance contributions due	<u>5,051.20</u>
--	-----------------

Solution to question 1 continued on next page

Solution to question 1 (Cont'd)

Chris's tax position

Income	£	£	£
Employments and Directorships (PAYE), minus expenses	15,000.00		
UK Interest (before tax)	<u>6,250.00</u>		
UK Dividends & tax credits	2,222.00		
Total Income		23,472.00	
Deductions and Allowances			
Personal Allowance	4,615.00		
Total Deductions and Allowances			<u>4,615.00</u>
Taxable Income			<u>18,857.00</u>

Calculation of Income Tax

Basic rate limit has been increased by 1,000.00 to 30,900.00 for gift aid payments.

This reduces the amount of income charged to higher rates of tax.

Non-savings income etc.	1,920.00	@ 10% =	192.00
	8,465.00	@ 22% =	1,862.30
Savings (other than Dividend income) etc.	0.00	@ 10% =	0.00
Dividend income etc.	6,250.00	@ 20% =	1,250.00
	<u>2,222.00</u>	@ 10% =	222.20
Taxable Income	<u>18,857.00</u>		
Income Tax			<u>3,526.50</u>

Income Tax due after Allowances and Reliefs		3,526.50
minus non-payable tax credits on dividends		222.20
plus Class 4 National Insurance contributions		<u>0.00</u>
Income Tax and Class 4 National Insurance contributions		3,304.30
minus tax deducted at source from		
UK Interest	1,250.00	
Total tax deducted at source		1,250.00
Income Tax and Class 4 National Insurance contributions due		<u>2,054.30</u>

Solution to question 2

Net salary due to Edward

<i>Pay in mth</i>	<i>Pay to date</i>	<i>Free pay</i>	<i>Taxable</i>	<i>Tax to date</i>	<i>Tax</i>		<i>EE NIC(max)</i>	<i>Net</i>
£	£	£	£	£	£	£	£	£
8,075.64	83,974.95	118.25	7,957.39	28,537.44				
		10%	160.00	16.00				
		22%	2,332.00	513.04				
		40%	5,465.39	<u>2,186.16</u>				
				<u>2,715.20</u>	8,075.64	5,360.44	215.00	5,145.44

Solution to question 2 continued on next page

Solution to question 2 (Cont'd)

Net salary due to Frank

<i>Pay in mth £</i>	<i>Pay to date £</i>	<i>Free pay £</i>	<i>Taxable £</i>	<i>Tax due to date £</i>	<i>Tax to date £</i>	<i>Tax this mth £</i>	<i>Gross £</i>	<i>EE NIC(max) £ £</i>		<i>Net £</i>
1,333.00	11,999.97 13,332.97	3,849.17	9,483.80		1,704.90					
		10%	1,600.00	160.00						
		22%	7,883.80	1,734.44						
		40%		0.00						
				1,894.44	1,704.90	189.54	1,333.33	1,143.79	95.00	1,048.79

Net salary due to George

<i>Pay in mth £</i>	<i>Pay to date £</i>	<i>Free pay £</i>	<i>Taxable £</i>	<i>Tax due to date £</i>	<i>Tax to date £</i>	<i>Tax this mth £</i>	<i>Gross £</i>	<i>EE NIC(max) £ £</i>		<i>Net £</i>
3,863.23	35,598.82 39,462.05	-874.17	40,336.22		10,344.70					
		10%	1,600.00	160.00						
		22%	23,317.00	5,129.74						
		40%	15,419.22	6,167.69						
				11,457.43	10,344.70	1,112.73	3,863.23	2,750.50	215.00	2,535.50

Solution to question 3

(a) Cash Accounting Scheme

Most VAT registered businesses must use the accruals or invoice method to determine the time when VAT is payable or recoverable. Cash businesses such as retailers account for output tax on receipt of cash unless an invoice is issued earlier but purchases for resale are normally covered by credit terms so that input tax is reclaimed based on the invoice date rather than the date of payment.

However, businesses with an annual taxable turnover of less than £600,000 may opt for the cash accounting scheme. Under the scheme, output tax is payable when payment is received and input tax is recovered when invoices are paid.

There is a cash flow advantage and use of the scheme means that output tax is not paid on debts that could become bad.

(b) Annual Accounting Scheme

The annual accounting scheme allows for the completion of only one VAT return each year with payments on account being made during the year.

The main conditions for using the scheme are that the business must be registered for at least one year and the expected turnover for the next year must be less than £600,000.

Interim payments are not required where the taxable turnover is less than £100,000, but voluntary payments may be made.

Nine monthly interim payments of 10% of the previous year's total are required where turnover is over £100,000 and less than £600,000.

The annual return and balancing payment are due two months after the year-end.

Solution to question 3

Kevin – VAT payable for the quarter ended 31st March 2003

VAT Return

	£	£	£
Standard rated sales	124,800.00	18,587.23	106,212.77
Deposit	4,500.00	670.21	3,829.79
Fuel charge / manager	226.00	33.66	259.66
	129,526.00	19,291.11	110,302.21
Standard rated purchases	74,800.00	11,140.43	63,659.57
Bad debts	8,000.00	1,191.49	6,808.51
Car purchase	9,800.00		9,800.00
	92,600.00	12,331.91	80,268.09

	£
Box 1	19,291.11
Box 2	
Box 3	19,291.11
Box 4	12,331.91
Box 5	6,959.19
Box 6	110,302
Box 7	80,268
Box 8	
Box 9	

Solution to question 4 Income Tax payable by Luke (Offer 1)

Income	£	£	£
Employments and directorships (PAYE), minus expenses	35,504.00		
Total income		35,504.00	
Deductions and allowances			
Personal allowance	4,615.00		
Total deductions and allowances		4,615.00	
Taxable income		30,889.00	
Calculation of income tax			
Non-savings income etc.	1,920.00	@ 10% =	192.00
	27,980.00	@ 22% =	6,155.60
	989.00	@ 40% =	395.60
Taxable income	30,889.00		
Income tax			6,743.20
Income tax due after allowances and reliefs			6,743.20
Plus class 4 national insurance contributions			0.00
Income tax and class 4 national insurance contributions			6,743.20

Solution to question 4 continued on next page

Solution to question 4 (Cont'd)

Company cars

Sample

Luke's car		£
Engine size (cc):	1300	
Type of fuel:	P - Petrol	
CO2 emissions (g/km):	195	
Date first registered:	01/01/2002	
Date first available:	06/04/2002	
Date last available:	05/04/2003	
Total list price of car and accessories		18,400.00
		<hr/>
Price of car for 2002-03 (maximum 80,000)		18,400.00
		<hr/>
Car benefit		
Full year's benefit, 18,400.00 at 21%		3,864.00
Payments made for private use of the car		(600.00)
		<hr/>
Car benefit charge for this car in 2002/03		3,264.00
		<hr/>
Car fuel benefit		
Full year's benefit		2,240.00
		<hr/>
Car fuel benefit charge for this car in 2002/03		2,240.00

Luke Offer 2

Income	£	£	£
Employments and directorships (paye), minus expenses	32,000.00		
Total income		32,000.00	
Deductions and allowances			
Personal allowance	4,615.00		
Total deductions and allowances		4,615.00	
		<hr/>	
Taxable income		27,385.00	
		<hr/>	
Calculation of income tax			
Non-savings income etc.	1,920.00	@ 10% =	192.00
	25,465.00	@ 22% =	5,602.30
			<hr/>
Taxable income		27,385.00	
Income tax			5,794.30
			<hr/>
Income tax due after allowances and reliefs			5,794.30
Plus class 4 national insurance contributions			0.00
			<hr/>
Income tax and class 4 national insurance contributions			5,794.30

Solution to question 5

Income Tax payable by Nelson for the Tax Year 2002/2003

Income	£	£	£
Self-Employment (as a sole trader)	2,000.00*		
UK Interest (before tax)	2,500.00		
UK Dividends & tax credits	<u>888.00</u>		
Total Income		5,388.00	

Deductions and Allowances

Personal Allowance	4,615.00		
Total Deductions and Allowances		<u>4,615.00</u>	
Taxable Income		<u>773.00</u>	

Calculation of income tax

Basic rate limit has been increased by 642.00 to 30,542.00 for gift aid payments.
This reduces the amount of income charged to higher rates of tax.

Dividend income etc.	<u>773.00</u>	@ 10% =	77.30
Taxable income	<u>773.00</u>		
Income Tax			<u>77.30</u>

Income Tax due after allowances and reliefs (A)

Tax due on gift aid payments (b)	642.00	@ 22% =	141.24	77.30
----------------------------------	--------	---------	--------	-------

Income tax due (higher of A and B)

Income tax due (higher of A and B)	141.24
minus non-payable tax credits on dividends	88.90
plus class 4 national insurance contributions	<u>0.00</u>

**Income Tax and Class 4 national insurance contributions
minus tax deducted at source from**

UK Interest	500.00	
Total tax deducted at source		500.00

Income Tax overpaid

Income Tax overpaid	<u>447.66</u>
----------------------------	---------------

Note: * APE 31 July 2002 £ 10,000
Overlap relief (8,000)

Solution to question 6

- | | | | | | | | | | |
|----------|-----|----------|-----|----------|-----|----------|-----|-----------|-----|
| 1 | (d) | 2 | (b) | 3 | (d) | 4 | (c) | 5 | (c) |
| 6 | (a) | 7 | (d) | 8 | (c) | 9 | (d) | 10 | (d) |

EXAMINERS REPORT

TAXATION I (Northern Ireland)

AUTUMN 2003

Solution to question 1 – Personal computations

This question posed the simple requirement of calculating the tax liability of three different individuals given slightly different circumstances in each instance.

The purpose was to test the ability of students in how charges are treated and the allocation of the bands of taxation across different types of income.

The charges were largely ignored and few marks were gained. A large number of students who had an attempt at including charges treated the amount paid as income.

The allocation of the rate bands was dealt with very poorly and many students ignored both the higher rate of 40% and the higher rate for dividends of 32.5%.

Surprisingly, the grossing-up of different types of investment income remains beyond the ability of the majority of students.

Solution to question 2 – PAYE

This PAYE question differed from previous examples in so far as a P11 (Working Sheet) was not provided. This was a deliberate strategy to determine the ability of students to deal with a real life situation where, say, they are on site with a client who requires a calculation of net salary. Without the aid of Sage, or other PAYE software, the students are clearly lost.

The answers were, for the most part, really dire although some marks in the high teens were achieved.

There continues to be almost a complete blank on the application of different types of PAYE code numbers including week 1/month 1 basis.

The allocation of rates of tax was dealt with very badly.

Class 1a NIC remains quite a mystery for most. The wrong starting point was used, the wrong rates were applied, no upper limit was applied and employer's contributions were calculated.

Solution to question 3 – VAT

The majority of students who attempted this question chose to ignore the narrative requirement. Those who did have a go at this displayed a large lack of knowledge of the subject and a complete inability to express what little knowledge they had in the written word.

The computational aspect of the question was dealt with marginally better, but only so.

Each constituent part was dealt with either badly or very badly indeed and, rather unusually, one or two students prepared a calculation as if it were a question on Schedule D adjusted profits.

The habitual problem of identifying inclusive/exclusive has not lessened.

Solution to question 4 – Personal computation

The calculation of car and car fuel benefits is always a topical subject and more so now with the calculation based on CO2 emissions.

Again, this could quite easily be a real life situation where a client has to decide which salary and benefits deal best suits him.

The requirement involved two simple calculations so that Luke could decide on the best option. In most cases only one calculation was shown. Where two calculations were attempted, Luke must have been more confused than before.

The car benefit is calculated by way of percentage based on emissions provided by a table. This basic concept was almost completely lost. Further, the product of the calculation, the benefit in kind, was often treated as the Income Tax due.

The allocation of the bands of Income Tax was poorly handled.

Solution to question 5 – Overlap & personal computation

The calculation of the final profit assessable for the Tax Year 2002/2003 was only a small part of the question. However many students provided pages of calculations for all Tax Years covered by the Basis Periods shown. Even so, the answers were invariably wrong.

Those who stuck to the requirement did not fair much better and many included the overlap profit brought forward as income.

The question quite clearly states that Nelson is 60 and a large number of students reckoned that this was old enough for Age Allowance.

The problems regarding the grossing up of investment income, the allocation of rates of tax and the treatment of charges re-occur in this example.

Solution to question 6 – MCQ

In keeping with earlier years, the object is to test ability over as wide a range of subjects contained within the syllabus. The marks will attest that not a great deal of such ability or knowledge is held.

General Comment

This was a very disappointing session and the average mark is very poor. The content and requirement was not really any different from earlier sessions but the same old problems continue.

The questions are not beyond the ability of the average student. In each question some scored in the high teens while others achieved zero.

Formatting computational questions is a problem and the ability to express oneself by the written word is almost none existent.

