

Chapter 16

Answer to Example 1

Corporation tax computation for the chargeable accounting period of 12 months ended 31 March 2019

Tax adjusted trading profits		1,456,500
Property income		25,000
Interest receivable		10,000
Chargeable gains	37,500	
Less: Capital losses	<u>(2,500)</u>	<u>35,000</u>
		1,526,500
Less: Qualifying charitable donations		<u>(10,000)</u>
Taxable Total Profits		<u>1,516,500</u>

Note: Dividends from other companies (UK or overseas) are exempt and therefore are ignored when calculating Taxable Total Profits

Chapter 17

Answer to Example 1

	<i>12 months to 31/3/2019 £</i>	<i>3 months to 30/6/2019 £</i>
Adjusted profit (12 : 3)	3,200,000	800,000
Less: CA (W1)	<u>(68,000)</u>	<u>(51,238)</u>
Tax adjusted trading profit	3,132,000	748,762
Chargeable Gain (6/5/2019)	–	80,000
Qualifying charitable donations (31/7/2018)	<u>(20,000)</u>	<u>–</u>
Taxable Total Profits	<u>3,112,000</u>	<u>828,762</u>
Corporation Tax @ 19%	£591,280	£157,465

(W1) 12 months to 31/3/2018

WDV b/f

Additions qualifying for AIA - Vans

68,000
(68,000)

nil

68,000

3 months to 30/6/2018

WDV b/f

Additions qualifying for AIA

Plant & Machinery

AIA - (Maximum 200,000 × $\frac{3}{12}$)

77,500
(50,000)

nil

50,000

27,500

27,500

WDA × 18% × $\frac{3}{12}$

(1,238)

1,238

51,238

WDV c/f

26,262

Main pool Allowances

Chapter 18

Answer to Example 1

Current year relief

	y/e 31/3/19 £
Trading profit	NIL
Interest receivable	20,000
Chargeable gain	50,000
Total Profits	70,000
Current year relief	(45,000)
	25,000
Qualifying charitable donations	(15,000)
Taxable Total Profits	10,000

Answer to Example 2

	y/e 31/3/17 £	y/e 31/3/18 £	y/e 31/3/19 £
Trading profit	30,000	60,000	NIL
Interest receivable	10,000	10,000	10,000
Total Profits	40,000	70,000	10,000
Current year relief			(10,000) ⁽ⁱ⁾
Carry back relief		(70,000) ⁽ⁱⁱ⁾	
Taxable Total Profits	40,000	–	–
Loss memorandum			
Loss arising			
y/e 31/3/2018		90,000	
Current year relief	y/e 31/3/2019	(10,000) ⁽ⁱ⁾	
Carry back relief	y/e 31/3/2018	(70,000) ⁽ⁱⁱ⁾	
Available to carry forward		10,000	

Answer to Example 3

	y/e 31/3/17 £	9m to 31/12/2017 £	y/e 31/12/2018 £
Trading profit	25,000	20,000	–
Interest Income	3,000	1,000	1,000
Chargeable Gain	NIL(W1) (W1)	5,000 (W1)	–
Total Profits	28,000	26,000	1,000
Current year relief			(1,000) ¹
Carry back relief (3/12 x 28,000)	(7,000)	(26,000) ¹	–
	21,000	–	–
Less Qualifying charitable donations	(500)	(500) (W2)	(500)(W2)
Taxable Total Profits	20,500	–	–

W1 The capital loss of £1000 is c/f to set off against the £6000 gain of next CAP

W2 Qualifying charitable donations are unrelieved

Loss memorandum

Trading loss

y/e 31/12/2018	40,000
Current year 31/12/2018	(1,000)
	39,000

Carry back to 9m to 31/12/2017 & 3m of y/e 31/3/2017 (26,000 + 7,000) (33,000)

Carry forward 6,000

The loss carried forward may be set off against part of the future total profits of the company.

Answer to Example 4

	y/e 30/9/15 £	6 months 31/3/16 £	y/e 31/3/17 £	y/e 31/3/18 £	y/e 31/3/19 £
Trading profit	10,000	16,000	20,000	32,000	–
Interest income	2,000	–	2,000	2,000	2,000
Chargeable Gain	–	–	6,000	–	8,000
	12,000	16,000	28,000	34,000	10,000
Current year relief					(10,000)
Carry back relief	(6,000)	(16,000)	(28,000)	(34,000)	–
Qualifying charitable donations	(500)	–	–	–	–
Taxable Total Profits	5,500	–	–	–	–
Qualifying charitable donations unrelieved			500	500	–
Loss memorandum					£
Loss arising y/e 31/3/2019					97,000
Current year relief y/e 31/3/2019					(10,000)
Carry back relief y/e 31/3/2018					(34,000)
Carry back relief y/e 31/3/2017					(28,000)
Carry back relief 6m to 31/3/2016					(16,000)
Carry back relief y/e 30/9/2015 £12,000 × ½ = £6,000 maximum set off					(6,000)
Loss unrelieved					3,000

Answer to Example 5

	y/e 31/3/16 £	y/e 31/3/17 £	y/e 31/3/18 £	y/e 31/3/19 £
Trading income	40,000	20,000	–	20,000
Property Income	3,000	3,000	3,000	3,000
Interest receivable	4,000	3,000	5,000	3,000
	<u>47,000</u>	<u>26,000</u>	<u>8,000</u>	<u>26,000</u>
Current period relief			(i) (8,000)	
Carry back relief / carry forward relief		(ii) (26,000)		(iii) (9,000)
	47,000	–	–	17,000
Less Qualifying charitable donations	(1,000)	–	–	(1,000)
Taxable Total Profits	<u>46,000</u>	<u>–</u>	<u>–</u>	<u>16,000</u>
Unrelieved Qualifying charitable donations		1,000	1,000	
Loss memo	£			
Loss arising y/e 31/3/2018	43,000			
Current year relief 31/3/18	(i) (8,000)			
	<u>35,000</u>			
Carry back relief 31/3/17	(ii) (26,000)			
	<u>9,000</u>			
Carry forward y/e 31/3/2019	(iii) (9,000)			
	<u>–</u>			

If the remaining loss carried forward had been £29,000 instead of £9,000 the claim made would have been restricted to £25,000 so as not to waste the qualifying charitable donations of £1,000. Such a partial claim is not available for either the current period or carry back claims.

The company could decide to not make a claim in the current period and then previous period, but to carry forward all of the loss in order to avoid wasting the qualifying charitable donations paid in those periods and then have the benefit of being able to make partial claims against total profits in the future.

The current and carry back claims are of course more beneficial in terms of cash flow and the carry back claim to the year ended 31 March 2017 will also achieve a tax repayment at a corporate tax rate of 20% instead of only 19%.

Chapter 19**Answer to Example 1**

	£	£
Sale proceeds	100,000	
Less: Incidental costs of sale	<u>(1,000)</u>	
		99,000
Less: Cost	20,000	
Enhancement expenditure	<u>6,000</u>	
		<u>(26,000)</u>
Unindexed gain		73,000
Less: Indexation allowance on cost	20,000 × 1.706	34,120
On enhancement	6,000 × 1.067	<u>6,402</u>
		<u>(40,522)</u>
Chargeable gain		<u>32,478</u>

As the date of disposal is post 31 December 2017, the indexation factors applied are only to December 2017

Answer to Example 2

- 1) Same day X
2) Previous 9 days 500 shares

		£
Proceeds	$\frac{500}{3,000} \times 36,000$	6,000
Less cost		(5,000)
Chargeable gain		1,000

- 3) Share pool
Share Pool

		<i>Number</i> £	<i>Cost</i> £	<i>Indexed cost</i> £
20 August 1989		1,000	5,000	5,000
Index up to November 1996	5,000 x 0.329			1,645
		1,000	5,000	6,645
Addition 16 November 1996		2,000	12,000	12,000
		3,000	17,000	18,645
Index up to December 2017	18,645 x 0.820			15,289
		3,000	17,000	33,934
Disposal 10 October 2018	$\frac{2500}{3000} \times 17,000$: $\frac{2500}{3000} \times 33,934$	(2,500)	(14,167)	(28,278)
		500	2,833	5,656

Calculate the gain on the 2,500 shares

		£
Proceeds	$\frac{2,500}{3,000} \times 36,000$	30,000
Cost		(14,167)
Unindexed gain		15,833
I.A (28,278 – 14,167)		(14,111)
Chargeable gain		1,722

Total Gains

Previous 9 days	1,000
Pool	1,722
Chargeable Gains to include in the corporation tax computation	2,722

Gains

Answer to Example 3

Matching rules

Same day ×

Previous 9 days ×

Share pool ✓

Share pool

July 1993

February 1995 Bonus 1:3

No reindexation of pool (though examiner may still give the indexation factor to that date - ignore!)

Sale

<i>Number</i>	<i>Cost</i>	<i>Indexed cost</i>
£	£	£
3,000	10,000	10,000
1,000	—	—
4,000	10,000	10,000
		9,910
4,000	10,000	19,910
(2,000)	(5,000)	(9,955)
2,000	5,000	9,955

Calculate the Gain

	£
Proceeds	12,000
Less Cost	(5,000)
Unindexed Gain	7,000
Less Indexation allowance (9,955 – 5,000)	(4,955)
Chargeable gain	2,045

Answer to Example 4

	<i>Market value</i>	<i>Cost</i>
B plc ordinary shares $10,000 \times 2 \times £1.50$	30,000	7,500
B plc preference shares $10,000 \times 1 \times £1.00$	10,000	2,500
	40,000	10,000

As the terms of the takeover are a share for share transfer no gain will arise at the time of the takeover with the new shares in B plc taking on the same original cost as the old shares in A Ltd. As 2 types of share are issued at takeover we use the market values of those shares as the basis of dividing the A Ltd share cost, hence the ordinary shares take 30/40 and the preference shares take 10/40 of the £10,000 share cost.

In reality the same method of apportioning the indexed cost column for the A Ltd shares would be applied and re-indexation of the indexed cost column would occur at the time of the takeover as well as at the date of the subsequent share sale. In the (TX-UK) (TX-UK) exam however this has been simplified as shown here with an indexation factor being supplied from the date the A Ltd shares were acquired through to the disposal of the B plc preference shares

Calculate Gain on sale of preference shares in March 2019:

	£
Proceeds	15,000
Cost	(2,500)
Less: indexation allowance $1.357 \times 2,500$	(3,393)
Chargeable gain	9,107

The cost of B plc ordinary shares when they are sold will be £7,500.

Answer to Example 5

As Z Ltd now receives some cash at the time of the takeover an immediate gain will arise thereon as computed below.

Z Ltd receives at takeover:

	<i>Market value</i>	<i>Cost</i>
20,000 B plc ordinary shares	£30,000	£7,500
Cash	£10,000	£2,500
Total	£40,000	£10,000

Chargeable gain in July 2018:

	<i>£</i>
Proceeds	10,000
Less Cost	(2,500)
Indexation allowance ($1.275 \times £2,500$)	(3,187)
Chargeable gain	4,313

Chapter 20**Answer to Example 1**

		<i>£</i>
Proceeds		16,000
Less: Cost	$26,000 \times \frac{16,000}{16,000 + 34,000}$	(8,320)
Unindexed gain		7,680
Less: I.A	$0.269 \times 8,320$	(2,238)
Chargeable gain		5,442

Answer to Example 2

(a) Antique table – this is an exempt asset as cost and proceeds are both $\leq$ £6,000 and it is a non wasting chattel.

(b) Painting – non wasting chattel
Normal calculation

		<i>£</i>
Disposal proceeds		10,000
Cost		(2,000)
		8,000
Less: Indexation allowance	$\frac{280.1 - 217.9}{217.9} = 0.285 \times 2,000$	(570)
Gain		7,430
Restricted to $\frac{2}{3} [10,000 - 6,000] = \text{£6,667}$		

(c) Antique vase – non wasting chattel

	<i>£</i>
Disposal proceeds (deemed)	6,000
Less cost	(8,000)
Capital loss	(2,000)

(d) The vintage car is exempt

	£
Asset (1)	–
Asset (2)	6,667
Asset (3)	(2,000)
Asset (4)	–
Net chargeable Gain	<u>4,667</u>

Answer to Example 3

	£	£
Proceeds		38,000
Less Acquisition cost		
Purchase	25,000	
Less $12/30 \times [25,000 - 1,000]$	(9,600)	
		<u>(15,400)</u>
Unindexed gain		22,600
Less indexation allowance $0.436 \times 15,400$		<u>(6,714)</u>
Chargeable gain		<u>15,886</u>

Answer to Example 4

		£
Proceeds (July 2018)		30,000
Less Acquisition cost	$10,000 \times \frac{30,000}{30,000 + 25,000}$	<u>(5,455)</u>
Unindexed gain		24,545
Less indexation allowance $0.549 \times 5,455$		<u>(2,995)</u>
Chargeable gain		<u>21,550</u>

Answer to Example 5

On 1 July 2018 there is no chargeable gain as the company has elected to rollover the proceeds against the cost of the painting.

When the painting is eventually sold its cost will be:

	£
Original cost	10,000
Less insurance proceeds	<u>(8,000)</u>
Base cost of painting	<u>2,000</u>

In addition the restoration costs themselves of £8,000 can be deducted on a future disposal.

Answer to Example 6

	£
Proceeds	34,000
Less cost	<u>(23,000)</u>
Unindexed gain	11,000
Less: I.A	$0.250 \times 23,000$ <u>(5,750)</u>
Chargeable gain	5,250
Less gain rolled over	<u>(1,250)</u>
Revised chargeable gain	<u>4,000</u>

Proceeds have been used to buy a replacement asset but only partially used, therefore £4,000 (£34,000 – £30,000) of the gain is chargeable immediately and £1,250 (£5,250 – £4,000) can be deferred.

Base cost of the replacement asset

Cost	30,000
Less Gain Deferred	<u>(1,250)</u>
Base cost	28,750

Chapter 21**Answer to Example 1**

	£
Proceeds	400,000
Less Cost	<u>(150,000)</u>
Unindexed Gain	250,000
Less: I.A	$0.929 \times 150,000$ <u>(139,350)</u>
Chargeable gain	110,650

Proceeds are fully reinvested into a qualifying asset within the specified time period, so the entire gain of £110,650 can be deferred until the sale of the land.

Base cost of the land

Cost	500,000
Less Gain deferred	<u>(110,650)</u>
Base cost	389,350

Answer to Example 2

	£
Proceeds	350,000
Cost	<u>(200,000)</u>
	150,000
Less: I.A	$\frac{280.1 - 181.5}{181.5} = 0.543 \times 200,000$ <u>(108,600)</u>
Chargeable gain	<u>41,400</u>

Proceeds not reinvested = 350,000 – 335,000 = £15,000

.Therefore £15,000 will be chargeable and the remaining gain of £26,400 (41,400 – 15,000) can be deferred

Base cost of new asset:

Cost	335,000
Gain deferred	<u>(26,400)</u>
	<u>308,600</u>