

LOCATION SWANSEA

LLEOLIAD ABERTAWE

LEVEL 5

LEFEL 5

**EXAMINATION PERIOD
MAY 2020**

**CYFNOD ARHOLIADAU
MAI 2020**

**MODULE CODE: BMBM5016
TAXATION**

TIME: 3 HOURS

ANSWER ALL FOUR QUESTIONS

Equipment or materials required – Non-programmable calculators are permitted

Adnoddau neu ddefnyddiau sydd eu hangen – Caniateir Cyfrifianellau nad ydych yn galu eu rhaglennu

ANSWER ALL QUESTIONS

**Please Note – Tax rates and allowances are provided at the end of
the question paper**

Question 1.

For the past seven years Jonathan has run a business selling electrical appliances in the UK to retailers. His statement of profit or loss for the year ended 31st December 2019 is as follows.

	£	£
Sales		750,000
Cost of Sales		<u>258,750</u>
Gross Profit		491,250
Rent received (Note 1)		<u>14,250</u>
		505,500
Wages and salaries	245,300	
Rent and rates (Note 1)	21,500	
Light and Heat (Note 1)	9,350	
Depreciation of fixtures and fittings	4,500	
Insurance	3,295	
Travelling and entertaining (Note 2)	14,125	
Irrecoverable debts (Note 3)	2,125	
Depreciation of vehicles	9,250	
Motorcar expenses (Note 4)	9,000	
Sundry expenses (Note 5)	3,125	
Legal and professional charges (Note 6)	4,500	
Interest on bank overdraft	3,500	
Van expenses	17,150	
Telephone	6,550	
Repairs and renewals (Note 7)	<u>3,250</u>	
		<u>(356,520)</u>
Net Profit		<u>148,980</u>

Notes:

- 1) The rent received is in respect of a flat above Jonathan's business premises that is rented out. Jonathan estimates that on the costs, a tenth of the rent and rates, and a tenth of the light and heat is in respect of this flat.

2) Travelling and entertaining expenses:	
Jonathan's business travelling expenses	8,450
Christmas presents for staff	875
Entertaining UK customers	4,325
Gifts to customers that carry the business name:	
Wine costing £10.00 each	200
Calendars costing £1.50 each	<u>275</u>
	<u>14,125</u>

3) Irrecoverable debts:	
Trading debts written off	2,350
Increase in allowance against general debtors	500
Non trading loan written off	300
A trade debt recovered which had been written off the previous year	<u>(1,025)</u>
	<u>2,125</u>

4) Motor car expenses:	
Jonathan's motor car expenses	3,950
Salesman's motor car expenses	<u>5,050</u>
	<u>9,000</u>

Jonathan's total mileage for the year was 20000 miles. During the year he drove 5,000 miles on a family holiday around Europe and estimates that the balance of his mileage is 20% private and 80% business.

5) Sundry expenses:	
Donation to national charity	75
Donation to local political party	150
Subscription to chamber of commerce	537
A gift to a member of staff upon marriage	68
Jonathan's golf club subscription	375
Advertising in trade press	<u>1,920</u>
	<u>3,125</u>

Jonathan often uses his golf club as a place to take customers since several of them are keen golfers.

6) Legal and professional charges:	
The cost of renewing a 21year lease in respect of the business premises	350
Accountancy (NB * below)	2,700
Debt collection	450
Legal fees to deal with an action by an employee for unfair dismissal	<u>1,000</u>
	<u>4,500</u>

*Included in Jonathan's accountancy fee is £1200 for taxation services. Of this, £900 is for the normal taxation work involved in submitting accounts to HMRC. The balance is in respect of calculating Jonathan's capital gains tax liability following the disposal of some shares that he had owned.

7) Repairs and renewals:	
Repairs to the office photocopier	50
A new printer for the office computer	355
The installation of new central heating for the office	2,360
Decorating the office	<u>485</u>
	<u>3,250</u>

During the year, Jonathan took various electrical goods out of stock for his own and his family's use without paying for them. These goods cost £700 and would have normally been sold at a mark-up of 50%.

Jonathan has a room in his private house that he uses as an office as he often works at home. The allowable amount for the use of the office is £500 and appears to be a fair estimate. Also, Jonathan makes business calls from his private telephone and he estimates the business use is two fifths. The total of his private telephone calls for the year was £750.

Calculate Jonathan's adjusted profit (before capital allowances) for the year ended 31st December 2019.

You should show all calculations and indicate by the use of zero, any items in the statement of profit or loss for which no adjustment is required.

(28 Marks)

Question 2.

Jack is employed by ZXY Ltd, a small family company, in which he holds 20,000 £1 ordinary shares; the remaining 75% are held by other senior employees. Jack is married and his wife is not in receipt of any income but does help Jack by providing administrative support for his work.

The company accounts show the following information:

Year to 31st December	2018	2019
	£	£
Salary to Jack (paid at the end of each month)	34,000	36,000
Bonus to Jack (paid in the following February)	6,200	5,500

The following information is provided in respect of 2018/19

- 1) The senior employees have been able to use the company yacht moored on the south coast for two weeks each year since its purchase. Jack spent his fortnight on the boat along with his family. The yacht cost the company £52,000 in 2014 (current value £33,000) and running and maintenance expenses amounted to £5,200 during the year.
- 2) Jack belongs to a private medical scheme and the company paid the required premium of £870 (including £570 for his family)
- 3) Jack took meals in the fully subsidised executive canteen; the cost for the year being £240. Another fully subsidised canteen was available for the other staff.
- 4) When at the company premises Jack has use of a 3,500cc Range Rover car owned by the company which emits 268 g/km of CO². It had a list price of £57,000 when new in 2013 and costs £5,600 a year to run. It is garaged at the company's head office and is also used by all the directors for business purposes.

Jack is also provided with a three-year-old 2 litre Mini (list price £20,500) with CO² emissions of 149 g/km. Jack is provided with private fuel. Both cars run on petrol, and the list price includes delivery and number plates.

- 5) He pays 3% of his basic salary into the company's occupational pension scheme. The company contributes 5% of his salary.

- 6) Jack is provided with a 2% interest rate loan from his employer of £30,000 which was granted three years ago to assist with the purchase of his daughter's residence. He has no other loans and has paid interest only on a monthly basis.
- 7) The company also loaned Jack one of its personal computers, with a printer, for use at home so that he could improve his IT skills. The equipment had cost the company £2,800 (including £850 for the printer) in June 2017. The market value of the equipment when it was first provided to Jack on the 6th April 2018 was £2,100.
- 8) From 6th June 2018 he lived in Gloucester in a flat owned by the company which cost £70,000 in 2015. Its market value on 6th June 2018 was £73,000. The annual value for the period from 6th June 2018 to 5th April 2019 can be taken as £1,300.

The company paid the following expenses in connection with the flat during his period of residence in 2018/19

	£
Council tax	850
Electricity	450
Telephone	180
Cleaning	270

The furniture in the property is estimated to have cost £12,000.

- 9) Jack received a dividend of 80p per share in May 2018 and interest from an ISA of £1000 in August 18.

(a) Compute Jack's income tax liability for 2018/19.

Assume the official rate of interest for 2018/19 is 3%

(30 Marks)

(b) Discuss what types of tax saving techniques individuals should consider when setting up a business. You should state at least 4 points for them to consider.

(2 Marks)

Question 3

Tabletop Ltd started trading on 1st December 2019, and its forecasts are as follows:

<u>Turnover:</u>	£
One month ended 31 December 2019	28,000
Quarter ended 31 March 2020	93,000
Quarter ended 30 June 2020	69,000
Quarter ended 30 September 2020	84,000

<u>Standard Rate Purchases and expenses:</u>	
One month ended 31 December 2019	18,000
Quarter ended 31 March 2020	35,000
Quarter ended 30 June 2020	28,000
Quarter ended 30 September 2020	32,000

(You should assume that the quarterly sales and purchases figures accrue evenly within the period and that they all occur in the UK)

Note the following:

1. The expenses **include** £1,000 per month for entertaining UK customers.
2. On 15 April 2020 the company expects to write off irrecoverable debts of £2,500 which are not included above.
3. On 30 June 2020 the company intends to purchase a motor car at a cost of £30,000 for the use of a director, and machinery at a cost of £12,000. Both these figures are **inclusive** of VAT. The motor car is used for both business and private mileage.

Unless stated otherwise, all of the above figures are exclusive of VAT.

(a) Advise Tabletop Ltd when it should register for VAT and when HMRC should be notified. Show all workings in reaching your conclusion (6 marks)

(b) Calculate the expected VAT due for the first quarter after VAT registration applies showing your full workings and state the normal payment deadline date. (You should assume that the quarter commences on the date of registration and is not partial). (14 marks)

Question 4

You are presented with the accounts of Hosent Ltd for the year to 31st December 2019 (see below). Hosent Ltd runs a small printing business and the managing director wishes to know the amount of the company's Adjusted Trading Profit for the year ended 31st December 2019.

	£	£
Gross profit from trading		65,240
Advertising	845	
Depreciation	4,350	
Light and heat	748	
Rates	1,105	
Repairs and Maintenance	3,974	
Motor car expenses (Note 1)	1,100	
Staff Costs (Note 2)	23,767	
Telephone	704	
Sundries (Note 3)	<u>698</u>	
		(37,291)
Net Profit before tax		<u>27,949</u>

Notes:

- 1) A director uses the motor car 70% for business purposes and 30% for private purposes.
- 2) Staff costs include an amount of £375 for a staff Christmas lunch
- 3) Sundries include:

	£
Subscription to Printers' Association	90
Gifts to customers:	
Promotional mugs costing £5.00 each	150
Two food hampers at Christmas	140
- 4) The company has a Written Down main general pool for capital allowances brought forward of £18,500 and completed the following transactions during the year to 31st December 2019
 - a. Sold an existing van with proceeds of £2000
 - b. Purchased a new van on 1st December 2019 for £15,000
 - c. Purchased a new piece of machinery for the company on 1st June 2019 costing £5000

(a) Calculate Hosent Ltd's Adjusted Trading Profit for year ended 31 December 2019 before Capital Allowances. You should indicate by the use of zero any items in the accounts for which no adjustment is required. (7 Marks)

(b) Calculate the Capital Allowances for Hosent Ltd and the Corporation Tax payable for the year ended 31st December 2019. Also state the payment due date for any tax due. (13 Marks)

END OF EXAMINATION

Tax rates and Allowances can be found on the following 4 pages

Summary of Tax Data

Income Tax

	2018-19	2017-18
TAX RATES AND BANDS[†]		
Basic rate	20%	20%
Higher rate	40%	40%
Additional rate	45%	45%
Basic rate limit	£34,500	£33,500
Higher rate limit	£150,000	£150,000
[†] Different tax rates and bands apply to the non-savings income of Scottish taxpayers (see below)		
Starting rate for savings	0%	0%
Starting rate limit for savings	£5,000	£5,000
Personal savings allowance (basic rate taxpayer)	£1,000	£1,000
Personal savings allowance (higher rate taxpayer)	£500	£500
Dividend ordinary rate	7.5%	7.5%
Dividend upper rate	32.5%	32.5%
Dividend additional rate	38.1%	38.1%
Dividend allowance	£2,000	£5,000

SCOTTISH TAX RATES AND BANDS[‡]

Starter rate	19%	-
Basic rate	20%	20%
Intermediate rate	21%	-
Higher rate	41%	40%
Top rate	46%	45%
Starter rate limit	£2,000	-
Basic rate limit	£12,150	£31,500
Intermediate rate limit	£31,580	-
Higher rate limit	£150,000	£150,000

[‡] These tax rates and bands apply only to the non-savings income of Scottish taxpayers

Summary of Tax Data

PERSONAL ALLOWANCES

	2018-19	2017-18
Personal allowance	£11,850	£11,500
Marriage allowance	£1,190	£1,150
Blind person's allowance	£2,390	£2,320
Married couple's allowance:		
Born before 6 April 1935	£8,695	£8,445
Minimum amount	£3,360	£3,260
Income limit for basic personal allowance	£100,000	£100,000
Income limit for married couple's allowance	£28,900	£28,000

CAR AND FUEL BENEFIT

Not exceeding 50g/km	13%	9%
51g/km to 75g/km	16%	13%
76g/km to 94g/km	19%	17%
95g/km	20%	18%
Each additional 5g/km	+1%	+1%
Maximum charge	37%	37%
Amount used in car fuel benefit calculation	£23,400	£22,600

PENSION SCHEMES

Annual allowance	£40,000	£40,000
Lifetime allowance	£1,030,000	£1,000,000

Capital Allowances

Writing Down Allowance (WDA)		
Main pool of plant and machinery	18%	18%
Special rate pool of plant and machinery	8%	8%
Annual Investment Allowance (AIA)		
AIA annual limit from 1 January 2016	£200,000	£200,000
AIA rate	100%	100%
First Year Allowance (FYA)		
Low emission cars	100%	100%
Zero-emission goods vehicles	100%	100%
Gas refuelling equipment	100%	100%
Charging points for electric vehicles	100%	100%
Energy saving or water efficient technology	100%	100%

National Insurance Contributions

	2018-19	2017-18
CLASS 1		
Lower earnings limit (weekly)	£116	£113
Primary threshold (weekly)	£162	£157
Upper earnings limit (weekly)	£892	£866
Secondary threshold (weekly)	£162	£157
Upper secondary threshold (weekly)	£892	£866
Employee contributions		
Rate on earnings between primary threshold and UEL	12%	12%
Rate on earnings beyond UEL	2%	2%
Employer contributions		
Rate on earnings beyond secondary threshold	13.8%	13.8%
CLASS 1A		
Rate	13.8%	13.8%
CLASS 2		
Weekly contribution	£2.95	£2.85
Small profits threshold	£6,205	£6,025
CLASS 3		
Weekly contribution	£14.65	£14.25
CLASS 4		
Lower profits limit	£8,424	£8,164
Upper profits limit	£46,350	£45,000
Rate on profits between lower and upper limit	9%	9%
Rate on profits beyond upper limit	2%	2%

Capital Gains Tax

	2018-19	2017-18
Standard rate [†]	10%	10%
Higher rate [†]	20%	20%
Entrepreneurs' relief rate	10%	10%
Entrepreneurs' relief lifetime limit	£10,000,000	£10,000,000
Annual exempt amount	£11,700	£11,300

[†] Taxable gains on the disposal of residential property are taxed at 18% and 28%

Summary of Tax Data

Corporation Tax

<i>Financial Year</i>	<i>FY2018</i>	<i>FY2017</i>	<i>FY2016</i>	<i>FY2015</i>
Main rate	19%	19%	20%	20%
Patent box (effective rate)	10%	10%	10%	10%
R&D SMEs payable credit	14.5%	14.5%	14.5%	14.5%
R&D expenditure credit†	12%	11%	11%	11%

† R&D expenditure credit 12% as from 1 January 2018

Note:

The main rate for FY2019 will be 19%.

Inheritance Tax

<i>Date of transfer</i>	<i>Nil rate band</i>	<i>Rate on life-time transfers</i>	<i>Rate on death</i>	<i>Lower rate</i>
6 April 2006 to 5 April 2007	0 - £285,000	20%	40%	-
6 April 2007 to 5 April 2008	0 - £300,000	20%	40%	-
6 April 2008 to 5 April 2009	0 - £312,000	20%	40%	-
6 April 2009 to 5 April 2012	0 - £325,000	20%	40%	-
6 April 2012 to 5 April 2019	0 - £325,000	20%	40%	36%

Note:

The residence nil rate band for 2018-19 is £125,000.

Value Added Tax

Standard rate	20%	(from 4 January 2011)
Reduced rate	5%	
Registration threshold†	£85,000	(from 1 April 2017)
Deregistration threshold†	£83,000	(from 1 April 2017)

† Thresholds frozen until April 2020