

PRACTICE QUESTIONS

1 UK Tax System

Jackie received property income of £5,000 but accidentally entered the figure on her tax return as £500. Michelle receives property income of £7,000 p.a. and deliberately declares £5,000 on her tax return.

Which of the above represents tax avoidance or tax evasion?

2 Kate

Kate has the following income and outgoings for 2018/19:

	£
Trading profit	38,000
Employment Income	8,000
Bank Deposit Interest (amount received)	3,500
Dividend income (amount received)	7,000
Qualifying interest (amount paid)	1,000
Gift aid (amount paid)	2,000

PAYE of £505 was deducted from the Employment Income.

Calculate the amount of income tax payable by Kate for 2018/19.

3 Jessica

Jessica had the following income and outgoings for 2018/19

Trading profit	£90,000
Bank interest received	£20,000
Gift aid (amount paid)	£1,600

Calculate the income tax liability of Jessica for 2018/19

4 Karl

Karl has the following income and outgoings for 2018/19

	£
Employment income	140,000
Dividends received	30,000
Qualifying interest (amount paid)	3,000
Gift aid (amount paid)	3,200

PAYE of £48,520 was deducted from the Employment income

Calculate the amount of income tax payable by Karl for 2018/19

5 Mr & Mrs Mature

Mr Mature receives property income of £35,000 which is his only source of income in the tax year 2018/19. His wife Mrs Mature has no income in 2018/19.

Calculate the income tax liability for Mr Mature for 2018/19 assuming any beneficial elections are made and recommend what course of action you would advise the couple to take to reduce this liability and compute the saving that would have been achieved from this action in 2018/19.

6 Michael

Michael received employment income of £116,000 and paid a personal pension contribution of £8,000 in 2018/19.

Calculate his income tax liability for 2018/19.

7 Peter

Peter acquired two properties on 1 June 2018 for purposes of letting that were first let from 1 July 2018.

Property A is let unfurnished for an annual rental of £4,000 payable quarterly in advance from 1 July 2018. Peter incurred the following expenditure in respect of this property during the period to 5 April 2019.

		£
20 June 2018	Repairs to roof following a violent storm on 15 June 2018	1,600
29 June 2018	Insurance for y/e 31/5/19	420
01 February 2019	Repainting exterior	810

Property B is let partly furnished for an annual rental of £5,000, payable quarterly in arrears. The tenants were late in paying the amount due on 31 March 2019, and this was not received until 15 April 2019. Peter incurred the following expenditure in respect of this property during the period to 5 April 2019.

		£
4 June 2018	Letting expenses paid to agent	40
29 June 2018	Insurance for y/e 31/5/19	585

In addition to the expenses incurred on property B, Peter purchased the following items during the tax year. June 2018

Carpets and curtains	£1,500
Fridge	£320
Washing machine	£240

In February 2019 Peter sold the fridge and the washing machine for £120 and £100 respectively, replacing these items with a new fridge freezer costing £500 although the price of the original fridge was now £350 and a new, but similar model washing machine for £250.

You are required to calculate Peter's Property Income assessment for the tax year 2018/19.

8 Matthew

Matthew owns three cottages that have no mortgages on them and that are let out. For the tax year 2018/19 the rent and allowable deductions for each cottage were as follows:

	<i>Rent</i>	<i>Deductions</i>
	£	£
Cottage 1	5,000	7,500
Cottage 2	4,000	2,000
Cottage 3	1,500	4,500

All the cottages are let unfurnished.

Calculate Matthew's Property loss for the tax year 2018/19 and discuss the options for its use. Advise on the tax implications if Cottage 1 was mortgaged, on which Matthew paid £2,400 interest in 2018/19 which figure is included in the deductions of £7,500.

9 Charlie

Charlie lets out a room in his residence to a lodger. The lodger pays rent of £100 per week throughout 2018/19, and the total allowable expenses are £6,100

Charlie had elected for rent a room relief to apply from 2016/17.

Advise Charlie whether or not he should withdraw the election.

10 John

For the past five years John has run a business importing electrical goods from the Far East which he then sells to wholesalers in the UK. His statement of profit or loss for the year ended 31 December 2018 is as follows:

	£	£
Sales		325,000
Cost of sales		(172,500)
Gross profit		152,500
Rent received (Note 1)		9,500
		<u>162,000</u>
Wages and salaries	50,200	
Rent and rates (Note 1)	12,900	
Light and heat (Note 1)	5,250	
Depreciation of fixtures and fittings	1,500	
Insurance	3,550	
Travelling and entertaining (Note 2)	10,750	
Irrecoverable debts (Note 3)	6,750	
Depreciation of vehicles	7,500	
Motor car expenses (Note 4)	4,500	
Sundry expenses (Note 5)	750	
Legal and professional charges (Note 6)	4,750	
Interest on bank overdraft	1,500	
Van expenses	9,300	
Telephone	3,350	
Repairs and renewals (Note 7)	<u>3,500</u>	
		<u>126,050</u>
Net profit		<u>35,950</u>

Notes

- Rent received is in respect of a flat above John's business premises that is rented out. John estimates that a tenth of the rent and rates, and a seventh of the light and heat is in respect of this flat.
- Travelling and entertaining expenses:

John's business travelling expenses	5,175
Christmas presents for staff	250
Entertaining UK customers	5,050
Gifts to customers that carry the business name:	
Boxes of chocolate costing £5.00 each	125
Calendars costing £1.50 each	<u>150</u>
	<u>10,750</u>
- Irrecoverable Debts
- Motor car expenses

John's motor car expenses	3,300
Salesman's motor car expenses	<u>1,200</u>
	<u>4,500</u>

John's total mileage for the year was 12,000 miles. During the year he drove 2,000 miles on a touring holiday and estimates that the balance of his mileage is 20% private and 80% business. Sundry expenses

Donation to national charity	50
Donation to local political party	100
Subscription to chamber of commerce	25
A gift to a member of staff upon marriage	45
John's squash club subscription	250
Advertising in trade press	280
	<u>750</u>

- 5 John often uses his squash club as a place to take customers since several of them are keen squash players.

- 6 Legal and professional charges

The cost of renewing a 21 year lease in respect of the business premises	250
Accountancy	3,050
Debt collection	300
Legal fees in connection with an action by an employee for unfair dismissal	1,150
	<u>4,750</u>

Included in John's accountancy fee is £950 for taxation services. Of this, £200 is for the normal taxation work involved in submitting accounts to the HMRC. The balance is in respect of calculating John's capital gains tax liability following the disposal of some shares that he had owned.

- 7 Repairs and renewals

Repairs to the office photocopier	175
A new printer for the office computer	650
The installation of new central heating for the office	2,200
Decorating the office	475
	<u>3,500</u>

During the year ended 31 December 2018 John took various electrical goods out of stock for his own and his family's use without paying for them. These goods cost £450 and would have normally been sold at a mark up of 30%.

John 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 £250 and appears to be a fair estimate. Also, John makes business calls from his private telephone and he estimates the business use as two fifths. The total of his private telephone calls for the year was £450.

Calculate John's adjusted profit (before capital allowances) for the year ended 31 December 2018.

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

11 Carl

Carl prepares accounts to 31 March.

The written down value on the main pool as at 1 April 2018 was £23,500.

In the two years ended 31 March 2020 the following transactions took place.

Year ended 31 March 2019

1 Nov 2018	Purchased machinery costing £176,000.
10 Nov 2018	Sold two lorries (purchased for £8,450 each) for £2,500 each. Purchased two replacement lorries for £15,250 each.
1 Dec 2018	Purchased a motor car with CO ₂ emissions of 170 g/km for £16,600 for use by the sales manager.

Year ended 31 March 2020

1 July 2019	Purchased thermal insulation for a business building of £120,000
1 Nov 2019	Purchased a motor car with CO ₂ emissions of 70 g/km for £7,500.
1 Dec 2019	Sold the motor car purchased on 1 December 2018 for £12,000.

Calculate the capital allowances available to Carl for the years ended 31 March 2019 and 31 March 2020.

12 Jason

Jason commenced trading on 1 July 2017 drawing up accounts to 31 May each year.

Trading profit for each accounting period is as follows:

	£
1 July 2017 to 31 May 2018	33,000
Year ended 31 May 2019	24,000
Year ended 31 May 2020	36,000

Calculate the trading profit assessments for the relevant tax years and any overlap profits arising.

13 Stephen

Stephen started to trade on 1 February 2014 and ceased trading on 31 October 2019. His accounts show the following trading income.

	£
P/e 30 April 2015	30,000
Y/e 30 April 2016	10,000
Y/e 30 April 2017	12,000
Y/e 30 April 2018	15,000
Y/e 30 April 2019	18,000
P/e 31 October 2019	7,000

Calculate the trading profit assessments for all relevant tax years.

14 Grace

Grace starts a trade on 1 May 2018, and has the following results (before capital allowances).

Period of account	Profit
	£
1 May 2018 – 31 July 2019	128,360
1 August 2019 – 31 July 2020	88,013
1 August 2020 – 31 July 2021	75,727

Plant is bought as follows:

Date	Cost
	£
1 May 2018 Plant	69,500
1 Dec 2018 Car (85g /km)	21,600
1 Oct 2019 Machinery	40,000
1 Feb 2021 Plant	25,000

On 1 May 2021, the car purchased on 1 December 2018 was sold for £13,000. The car was used by the sales manager of the business throughout the period of ownership with 60% business use and 40% private use.

Calculate the trading profit assessments for the opening tax years as far as the available information permits, assuming maximum capital allowances are claimed.

Assume that the capital allowance rates applicable to the 2018/19 tax year apply throughout.

15 David

David traded for many years preparing accounts to 5 April when he ceased trading at 30 June 2020. Trading profits (before capital allowances) have been as follows:

Year ended	£
5 April 2019	25,000
5 April 2020	27,000
Period to 30 June 2020	14,000

Expenditure on plant had been as follows:

Date	Cost
	£
1 June 2018	2,800
1 October 2019	4,600

All items of plant were sold on 30 June 2020 for £4,000 (no item was sold for more than cost).

The written down value of the main pool as at 6 April 2018 was £14,800. Overlap profit from commencement was £2,000

Calculate the trading profit assessments for the final three tax years of assessment.

Assume that the capital allowance rates applicable to the 2018/19 tax year apply throughout

16 Max

Max began trading on 1 January 2018. He prepares accounts to 31 December annually, with results as follows:

	<i>Trading profit</i> £
Year ended 31 December 2018 Loss	(12,000)
Year ended 31 December 2019 Loss (estimated)	(4,000)
Year ended 31 December 2020 Profit (estimated)	8,000
Year ended 31 December 2021 Profit (estimated)	11,500

Prior to commencing self-employment, Max had the following income from employment:

2014/15	19,200
2015/16	23,800
2016/17	20,100
2017/18	11,400

- (a) **Calculate the trading profit assessments for relevant tax years assuming loss relief is carried forward.**
- (b) **Show how the losses incurred in the first years of trading can be relieved under special opening years loss relief, by showing the net income of each year affected by the loss relief.**

17 Elliot

Elliot has been in business many years producing accounts to 31 December.

His recent trading profit results are as follows:

y/e 31 Dec 2015	£60,000
y/e 31 Dec 2016	£30,000
y/e 31 Dec 2017	£40,000
y/e 31 Dec 2018	(£60,000)

Elliot's only other income is property income of £6,000 in each relevant tax year.

Assuming Elliot wants to claim relief for the trading loss as soon as possible calculate the taxable income for each relevant tax year.

If Elliot ceased trading at 31 December 2018 state what alternative loss relief would be available. Assume the 2018/19 personal allowance applies in all years.

18 Anne and Betty

- (a) Briefly explain the basis by which partners are assessed in respect of their share of a partnership's trading profit.
- (b) Anne and Betty have been in partnership since 1 January 1997 sharing profits and losses equally. On 30 June 2018 Betty resigned as a partner, and was replaced on 1 July 2018 by Chloe. The profits were then split in the ratio of 2:1 between Anne and Chloe. The partnership's trading profit is as follows:

	£
Year ended 31 December 2018	60,000
Year ended 31 December 2019	72,000

Anne and Betty each have unrelieved overlap profits of £3,000.

Calculate the trading profit assessments of Anne, Betty and Chloe for 2018/19 and 2019/20.

- (c) Daniel and Elvis have been in partnership since 6 April 1995, making up accounts to 5 April. On 31 December 2018 Elvis resigned as a partner, and was replaced on 1 January 2019 by Frank. For 2018/19 the partnership made a trading loss of £40,000, and this has been allocated between the partners as follows:

	£
Daniel	(20,000)
Elvis	(15,000)
Frank	(5,000)

Each of the partners has investment income. None of them have any capital gains.

State the possible ways in which Daniel, Elvis and Frank can relieve their Trading losses for 2018/19.

19 Renner

Renner is employed by C Ltd, a small family company, in which he holds 20,000 £1 ordinary shares; the remaining 80% are held by the other senior employees.

The company accounts show the following information:

Year to 30 November	2018	2019
	£	£
Salary to Renner (paid at the end of each month)	28,500	33,000
Bonus to Renner (paid in the following February)	4,200	2,700

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. Renner spent his fortnight on the boat along with his family. The yacht cost the company £42,000 in 2013 (current value £33,000) and running and maintenance expenses amounted to £6,000 during the year.
- (2) Renner belongs to a private medical scheme and the company paid the required premium of £270 (including £50 for his family),
- (3) Renner took meals in the fully-subsidised executive canteen; the cost for the year being £135. Another fully subsidised canteen was available for the other staff.
- (4) When at the company premises Renner has use of a 3,500 cc Range Rover car owned by the company which emits 268 g/km of CO₂. It had a list price of £62,000 when new in 2013 and costs £4,800 a year to run. It is garaged at the company's head office and is also used by all the directors for business purposes. Renner is also provided with a three year old 2 litre Mini (list price £16,500) with CO₂ emissions of 149 g/km. Renner 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 an amount equal to 7% of his salary.
- (6) Renner is provided with a 2% interest rate loan from his employer of £20,000 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 Renner 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 £350 for the printer) in June 2016. The market value of the equipment when it was first provided to Renner on the 6 April 2018 was £2,010.
- (8) From 6 June 2018 he lived in Southampton in a house owned by the company which cost £80,000 in 1995. Its market value on 6 June 2018 was £138,000. The annual value for the period from 6 June 2018 to 5 April 2019 can be taken as £900. The company paid the following expenses in connection with the house during his period of residence in 2018/19.

	£
Council tax	550
Electricity	260
Telephone	110
Cleaning	130

The furniture in the house is estimated to have cost £7,200.

- (9) Renner received a dividend of 40p per share in May 2018.

Compute Renner's income tax liability for 2018/19

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

20 George

- (a) George is employed by Exchequer plc earning an annual salary of £100,000 and has made the following gross personal pension contributions since first joining a scheme in June 2016:

2016/17	£28,000
2017/18	£23,000

During 2018/19 he made a cash payment of £48,000 into the pension scheme and wishes to know whether tax relief will be available in full on this amount and what will be the maximum contribution he will be able to make in 2019/20 for which tax relief will be available without incurring any charges.

- (b) Osbourne is an employee of Chancellor plc with an annual salary of £170,000. He has made regular annual gross personal pension contributions of £60,000pa other than in 2017/18 when his gross contributions were only £10,000. In 2018/19 Osbourne has made gross personal pension contributions of £90,000.

Compute Osbourne's Income Tax liability for 2018/19.

21 Tony

Tony is in business as a baker, and prepares accounts to 31 March each year. He has given you the following information:

- (1) His trading income for the year ended 31 March 2019 was £18,479.
- (2) Tony employed Jack and Jill during 2018/19. Their gross wages were £18,200 and £12,480 respectively.

Jack's and Jill's wages and employer's NIC are already accounted in the profit figure which Tony has given you.

You are required to calculate the following:

- (a) ***The total Class 1 NICs payable for 2018/19.***
- (b) ***The Class 2 and Class 4 NICs payable by Tony for 2018/19.***

22 Chorley Ltd

You are presented with the accounts of Chorley Ltd for the year to 31 December 2018 (see below). Chorley Ltd runs a small printing business and the managing director wishes to know the amount of the companies' Adjusted trading profit for the year ended 31 December 2018.

	£	£
Gross profit from trading		25,620
Profit on sale of business premises (1)		<u>1,750</u>
		27,370
Advertising	642	
Irrecoverable Debts	75	
Depreciation	2,381	
Light and heat	372	
Miscellaneous expenses (2)	347	
Motor car expenses (3)	555	
Rates	1,057	
Repairs and renewals (4)	2,598	
Staff wages (5)	12,124	
Telephone	<u>351</u>	
		<u>20,502</u>
Profit before tax		<u>6,868</u>

Notes

(1) The profit on the sale of premises relates to the sale of a small freehold industrial unit in which the company stored paper before building the extension.

(2) Miscellaneous expenses included:

	£
Subscription to Printers' Association	45
Contribution to local Enterprise Agency	50
Gifts to customers	
Company calendars costing £7.50 each	75
Two food hampers	95

(3) A director uses the motor car 75% for business purposes and 25% for private purposes.

(4) Repairs and renewals comprises the following expenditure:

	£
Refurbishing second hand press before it could be used in the business	522
Redecorating administration offices	429
Building extension to enlarge paper store	<u>1,647</u>
	<u>2,598</u>

(5) Staff wages includes an amount of £182 for a staff Christmas lunch.

Calculate Chorley Ltd's Adjusted trading profit for year ended 31 December 2018.

You should indicate by the use of zero any items in the accounts for which no adjustment is required.

23 Sail Ltd

Sail Ltd has the following results for the year ended 31 March 2019. It has one wholly owned subsidiary company.

	£
Trading profit	380,000
Interest receivable	9,000
Property Income	12,000
Chargeable gains	21,000
Dividends received from non subsidiary UK companies	50,000
Qualifying charitable donations	22,000

Calculate the amount of corporation tax payable by Sail Ltd for the year ended 31 March 2019 and state giving reasons the due date for payment.

24 Swish Ltd

Swish Ltd has the following results for the year ended 31 March 2019

	£
Net loss per Accounts (Note (1))	(116,500)
Interest receivable	3,500
Chargeable gain	44,500

Notes

- (1) Net loss is after charging:
- | | |
|------------------------|----------|
| Depreciation | £ 10,800 |
| Entertaining customers | 1,200 |
- (2) All other expenses are allowable for corporation tax.
- (3) The written down value of plant and machinery on the main pool at 1 April 2018 was £20,000. There were no purchases or sales during the year ended 31 March 2019.
- (4) Swish Ltd has the following results for the previous year:

	31/3/18
Trading profit	40,000
Interest receivable	2,000
Chargeable gain	—
	<u>42,000</u>

(a) To compute the trading loss for the year ended 31 March 2019.

(b) To show how the trading loss is relieved assuming relief is taken as soon as possible.

25 Trunk Limited

Trunk Limited acquired 1,000 shares in Branch Limited on 17th July 1994 costing £10,000. A further 500 shares in this company were acquired on 20th February 1996 costing £6,000. In September 1997 there was a 1 for 2 Bonus issue and in October 1998 a 1 for 3 Rights issue at £9 per share by Branch Limited.

On 15th October 2018 Trunk Limited acquired a further 1,000 shares in Branch Limited costing £15,000 and on 20th October 2018 sold 2,500 shares in Branch Limited for £40,000

Calculate the chargeable gain arising on the sale of the Branch Limited shares in October 2018

Indexation factors are as follows:

July 1994 to February 1996	0.048
February 1996 to September 1997	0.061
February 1996 to October 1998	0.090
September 1997 to October 1998	0.023
October 1998 to December 2017	0.703

26 Granger Limited

Granger Limited bought a piece of land in January 1991 for £5,000. In January 2019 the company sold part of the land for £4,500 at which time the remaining part was valued at £20,500.

In addition the company sold some antique furniture for £5,000 in March 2019. It had originally purchased the furniture in August 1996 for £8,000.

It also sold a painting for £6,600 in October 2018. It was purchased in July 1996 for £2,000.

Calculate the net chargeable gains arising on the above transactions

Indexation factors are as follows:

January 1991 to December 2017	1.194
August 1996 to December 2017	0.871
July 1996 to December 2017	0.875

27 Westcroft Limited

Westcroft Ltd purchased a painting in February 2013 for £100,000. In December 2018 it was stolen and never recovered. In December 2018 the company received insurance proceeds of £500,000 and immediately acquired a replacement painting for £450,000.

Calculate the chargeable gain arising and the base cost of the replacement painting.

Indexation factors are as follows:

February 2013 to December 2017	0.338
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28 Mighty Ltd

Mighty Ltd has been offered £160,000 for a freehold factory that it owns, and is now considering disposing of the factory. The company acquired the factory on 15 March 1984 and it now has an indexed cost of £120,000. The factory has always been used by Mighty Ltd for business purposes.

Explain the chargeable gains implications of each of the following alternative courses of action that Mighty Ltd is considering taking to replace the factory if sold:

- (a) Acquiring a larger freehold factory for £170,000.
- (b) Acquiring a smaller freehold factory for £155,000 and using the remainder of the proceeds as working capital.
- (c) Using the proceeds to pay a premium of £180,000 for a 40-year lease of a new factory (it is possible that a freehold warehouse will also be bought in the next two or three years for an estimated cost of £200,000).

29 Claude

For 2018/19 Claude has made the following gains and capital losses:

- a gain of £31,000
- a gain of £24,000
- a capital loss of £7,000
- a capital loss brought forward of £10,000

All three assets were purchased during May 2016 and were sold during September 2018. None of the assets are residential property

Calculate the CGT in 2018/19 assuming his taxable income is £50,000

30 Cheryl

Cheryl disposed of various assets, none of which were residential property in 2018/19, resulting in chargeable gains of £40,000. Her taxable income was £31,000 and she made a gift aid payment of £1,600 in the tax year.

Calculate Cheryl's capital gains tax for 2018/19 and state the due date for payment

31 Shamus

Shamus acquired a commercial property in October 2017 for £124,000. This was damaged by flooding in December 2018. In January 2019 the insurance company made a payment of £50,000. In February 2019 Shamus spent £60,000 restoring the property. The property was worth £160,000 prior to the restoration. He made an election to deduct the proceeds from the cost of the property on a future disposal.

Calculate any capital gain arising on the receipt of the insurance proceeds in January 2019 and the base cost of the property on a future disposal. Recompute these figures assuming that no election was made.

32 Zoe

Zoe acquired 1,500 shares in XYZ Ltd on 30 April 2018 for £18,000, and 500 shares on 31 May 2018 for £7,000. On 10 February 2019 Zoe bought a further 200 shares in the company for £3,600.

Zoe sold 1,000 shares in XYZ Ltd on 31 January 2019 for £20,000.

Calculate Zoe's capital gain on the disposal of the shares.

33 Michael

Michael had the following transactions in the shares of Saint Ltd:

January 2018	Purchased 2,700 shares for £5,400
May 2018	Purchased 600 shares for £1,500
June 2018	Took up 1 for 3 rights issue at £2.30 per share
August 2018	Sold 4,000 shares for £14,000

Calculate the capital gain on the disposal in August 2018.

34 Jenny

Jenny disposed of her entire business in October 2018 giving rise to the following gains and losses.

	<i>Gain</i>	<i>Loss</i>
Goodwill	100,000	
Factory used in the business	250,000	
Investment commercial property	80,000	
Warehouse		(50,000)

She had owned the business for five years.

In addition she disposed of her entire shareholding in Max Limited giving rise to a gain of £145,000.

She owned 15% of the shares in Max Limited for two years and had worked for Max Ltd as an employee for the entire period of ownership.

Jenny has capital losses brought forward at 6 April 2018 of £15,000 and her taxable income for 2018/19 was £30,000.

Calculate Jenny's Capital Gains Tax for 2018/19 and state the due date for payment.

35 Beth

Beth bought a factory for use in her trade in September 1998 for £635,000. In December 2018, wishing to move to a more convenient location, she sold the factory for £750,000. She moved into a rented factory until March 2019 when she purchased and moved into a new factory.

What is the base cost of the new factory if it was purchased for

- (a) £700,000,
or
(b) £550,000?

36 Wendy

Wendy purchased shares in an unquoted trading company of which she owned a 1% holding (and worked part time) in November 1999 for £40,000. In January 2019 she sold them to her grandson for £70,000 when their value was £165,000. Wendy and her grandson claimed relief for a gift of business assets.

- (a) **What is the chargeable gain, if any, incurred by Wendy?**
(b) **What is the base cost of the shares for Wendy's grandson?**

37 Amy

Amy bought a house on 1 April 1985 and occupied as follows:

1/4/1985 – 1/4/1986	lived in it
1/4/1986 – 30/9/1990	travels the world and lets the house
1/10/1990 – 1/4/1994	lived in it
1/4/1994 – 1/5/2018	house empty

Amy sold the house on 1 May 2018 for £400,000. It cost £190,270 on 1 April 1985

Calculate the chargeable gain on the sale of the house after considering all reliefs

38 Nathan

(a) Nathan made the following lifetime gifts:

(1) 23 October 2007	– A gift of £356,000 into a trust
(2) 17 September 2012	– A gift of £47,000 to his nephew on the occasion of his marriage
(3) 14 February 2014	– A gift to his civil partner of £100,000
(4) 26 August 2014	– A gift of £276,000 to a trust.

Calculate the IHT payable on the lifetime transfers assuming that Nathan pays any IHT due on the first transfer into trust and the trustees pay any IHT due on the second transfer into trust. Clearly state who is responsible for paying the tax and the due date for payment.

The nil rate bands are as follows

2007/08	300,000
2012/13 onwards	325,000

(b) Nathan died on 30 November 2018 leaving an estate comprising of his main residence valued at £500,000 upon which there was an interest only mortgage of £150,000 outstanding on this property. In addition he owned

Quoted shares in various companies valued at	£120,000
Paintings valued at	£205,000
Motor cars valued at	£50,000
Building society accounts of	£36,000

Nathan had a life assurance policy on his own life from which the proceeds received were £105,000

Nathan had credit card debts of £2,500 and had also verbally promised to pay the £1,000 legal fees of a friend. Funeral expenses amounted to £5,000.

Under the terms of his will he left £100,000 to his civil partner Norris, £20,000 to his niece and the residue of the estate to his nephew.

Using the information from the part (a), calculate the IHT as a result of death on the lifetime gifts made by Nathan and the IHT on the death estate.

Clearly state who is responsible for paying the tax, who suffers it and the due date for payment.

39 VAT

- (a) Kite Ltd started trading on 1 December 2018, and its forecast turnover is as follows:

	£
One month ended 31 December 2018	27,000
Quarter ended 31 March 2019	90,000
Quarter ended 30 June 2019	68,000
Quarter ended 30 September 2019	81,000

Assume that the quarterly sales figures accrue evenly within the period.

Advise Kite Ltd when it should register for VAT and when HMRC should be notified.

- (b) Cart Ltd is registered for VAT, and its sales are all standard rated. The following information relates to the company's VAT return for the quarter ended 31 December 2018:
- (1) Standard rated sales amounted to £240,000. Cart Ltd offers its customers a 5% discount for prompt payment, and this discount is taken by half of the customers.
 - (2) Standard rated purchases and expenses amounted to £71,280. This figure includes £960 for entertaining UK customers.
 - (3) On 15 December 2018 the company wrote off irrecoverable debts of £4,000 and £1,680 in respect of invoices due for payment on 10 May and 5 August 2018 respectively.
 - (4) On 30 December 2018 the company purchased a motor car at a cost of £32,900 for the use of a director, and machinery at a cost of £42,300. 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.

Calculate the amount of VAT payable by Cart Ltd for the quarter ended 31 December 2018.

40 Geewizz Ltd

Geewizz Ltd commenced trading as a manufacturer of children's toys on 1 April 2018 and immediately registered for VAT. The company is in the process of completing its VAT return for the quarter ended 31 March 2019.

All of Geewizz Ltd's sales are standard rated. It has recently been suffering some debt collection problems with a number of slow paying customers and irrecoverable debts where customers have not paid. At present, the company does not use the cash accounting scheme.

Geewizz Ltd's first three VAT returns were submitted on 20 August 2018, 26 October 2018 and 25 January 2019 respectively. The VAT payable in respect of the second and third returns was not paid until 11 November 2018 and 5 March 2019 respectively.

- Explain the implications if the VAT return and the VAT payable for the quarter ended 31 March 2019 are not submitted to HMRC until 20 May 2019.**
- State the conditions that Geewizz Ltd needs to satisfy before it will be permitted to use the cash accounting scheme or the annual accounting scheme.**
- Explain the advantages of using either scheme.**

41 Factor Limited

Factor Limited manufactures music CD's. Its customers are mainly overseas.

- (a) ***Discuss the VAT implications of selling the music CD's to non European Union (EU) customers and alternatively EU customers.***
- (b) ***Further what are the VAT implications of buying the raw materials to manufacture the music CD's from non EU suppliers and alternatively from EU suppliers.***

42 Groups

Explain the circumstances in which companies may enter into a group VAT registration and state the advantages and disadvantages of joining a group VAT registration

43 Jim

Jim is required to make payments on account. His income tax payable by self assessment for 2017/18 was £5,100.

His income tax payable by self assessment in 2018/19 is £7,629, and he has a capital gains tax liability for the year of £1,000.

State the due dates for payments for tax year 2018/19 and the amount of payment due on each due date.

44 Enquiries

HMRC must give written notice before starting an enquiry into a self assessment personal tax return.

- (a) ***State the date by which the written notice must normally be given***
- (b) ***State the circumstances under which HMRC can extend the above deadline and the time limits for this extension.***
- (c) ***State the three main reasons for the commencement of an enquiry.***
- (d) ***Explain the choices available to a taxpayer who is notified of an additional liability as a result of an enquiry.***

45 Cannock Limited

Cannock Ltd had Taxable Total Profits (TTP) in year ended 31 March 2019 of £2.4M having previously had a TTP of £2M in the year ended 31 March 2018.

Calculate the corporation tax liability of Cannock Limited for the accounting period ended 31 March 2019 and state when this liability is due for payment and the filing date for the corporation tax return.

Paper (TX-UK)

PRACTICE ANSWERS

1 UK Tax System

Jackie made a mistake on her tax return so this is neither tax avoidance or evasion. She could amend her tax return within 12 months of the filing date. It is unlikely a penalty will be imposed for an incorrect return as this was a genuine mistake.

Michelle deliberately understated the income received. This is tax evasion.

A penalty is likely to be imposed for an incorrect return up to 70% of the tax revenue lost as the behaviour of the tax payer was a deliberate understatement. (The penalty will be 100% if the error was concealed).

2 Kate

Kate Income tax computation 2018/19

	<i>Non savings</i> £	<i>Savings</i> £	<i>Dividends</i> £	<i>Total</i> £
Trading profit	38,000			38,000
Employment Income	8,000			8,000
Interest		3,500		3,500
Dividends			7,000	7,000
Total Income	46,000	3,500	7,000	56,500
Less: Reliefs - Qualifying Interest	(1,000)			(1,000)
Net Income	45,000	3,500	7,000	55,500
Less: Personal Allowance	(11,850)			(11,850)
Taxable income	33,150	3,500	7,000	43,650
Tax calculation				
Non Savings:				
(W1) (revised BRB limit = 37,000)	33,150 @ 20%			6,630
Savings (note 1)	500 @ 0%			0
(37,000 - (33,150 + 500))	3,000 @ 20%			600
	—			
Dividends (note 2)	2,000 @ 0%			0
	5,000 @ 32.5%			1,625
Income Tax liability				8,855
Less: tax deducted at source				
PAYE				(505)
Tax payable				8,350

(W1) The basic rate band is extended by the gross amount of the gift aid payment

$$34,500 + (2,000 \times 100\%) = 37,000$$

Note 1:

The 0% starting rate for savings income is not available as non savings taxable income exceeds £5,000

Kate is a higher rate taxpayer so has a £500 nil rate band. The savings income nil rate band counts towards the basic rate band limit

Note 2

The dividend income nil rate band is £2,000 no matter what other income of the taxpayer and counts towards the basic rate band limit. The remaining dividend income falls in the higher rate band and is taxed at 32.5%

3 Jessica

Jessica Income tax computation 2018/19

		<i>Non savings £</i>	<i>Savings £</i>	<i>Total £</i>
Trading profit		90,000		90,000
Bank interest			20,000	20,000
Total income		90,000	20,000	110,000
Less Personal allowance (W1)		(7,850)		(7,850)
Taxable income		82,150	20,000	102,150
Tax				
Non savings				
(W2)	36,500 @ 20% =	7,300		
	45,650 @ 40% =	18,260		
	82,150			
Savings (note 1)				
	500 @ 0%		0	
	19,500 @ 40%		7,800	
Income tax liability				33,360
(W1) Total income = Net Income	110,000			
Less Gift aid payment 1,600 × 100/80 =	(2,000)			
Adjusted net income	108,000			
Personal allowance	11,850			
Less				
½ × (108,000 – 100,000) =	(4,000)			
Revised personal allowance	7,850			

(W2) 34,500 + 2,000 = 36,500
150,000 + 2,000 = 152,000

Note 1:

Jessica is a higher rate taxpayer so has a £500 savings income nil rate band

The starting rate for savings income is not available as non savings taxable income exceeds £5,000.

4 Karl

Karl Income tax computation 2018/19

	<i>Non savings</i> £	<i>Dividends</i> £	<i>Total</i> £
Employment income	140,000		140,000
Dividend Income		30,000	30,000
Total income	140,000	30,000	170,000
Less reliefs			
Qualifying interest	(3,000)		(3,000)
Net income	137,000	30,000	167,000
Less Personal allowance (W1)	(–)		(–)
Taxable income	137,000	30,000	167,000

Tax calculation

Non savings (W2)

$38,500 \times 20\% =$	7,700
$98,500 \times 40\% =$	39,400
137,000	

Dividends

note 1	$2,000 @ 0\% =$	0
$(154,000 - (137,000 + 2,000)) = 15,000 @ 32.5\%$		4,875
13,000 @ 38.1%		4,953

Income tax liability	56,928
Less tax deducted of source	
PAYE	(48,520)
Income tax payable	8,408

(W1) Adjusted Net income:

Net income	167,000
Less Gift aid $3,200 \times 100/80 =$	(4,000)
Adjusted net income	163,000

As Adjusted Net Income exceeds £123,700 the personal allowance is reduced to nil.

(W2) Basic rate band	$£34,500 + £4,000 = £38,500$
Higher rate band	$£150,000 + £4,000 = £154,000$

note 1 The dividend income nil rate band is £2,000 no matter what other income of the taxpayer. The rest of the dividend income falls partly in the remaining higher rate band which is taxed at 32.5% and partly in the additional rate band which is taxed at 38.1%.

Further note that if the taxpayer had received any savings income there would be no savings income nil rate band available as Karl is an additional rate taxpayer and clearly no 0% starting rate band as non savings taxable income exceeds £5,000.

5 Mr & Mrs Mature

Mr Mature Income tax Computation 2018/19

	<i>Non savings £</i>	<i>Total £</i>
Property Income	35,000	35,000
Total Income	35,000	35,000
Less: Personal Allowance	(11,850)	(11,850)
Taxable income	23,150	23,150

Tax calculation

23,150 @ 20% = 4,630

Less: Marriage allowance (1,190 x 20%) (note 1) (238)

Tax liability 4,392

Please note that where there is a single type of income, as here non savings there is no need for you to run 2 columns as above.

note 1

As Mrs Mature is not using any of her personal allowance and Mr Mature is only a basic rate taxpayer an election should be made to transfer £1,190 of her personal allowance to him which will result in a tax saving on his computation of £238.

The election must be made within 4 years of the end of the tax year, hence by 5 April 2023 and will only apply to the 2018/19 tax year.

If the election is then made during the 2019/20 tax year it will remain in force until it is withdrawn or the conditions do not apply. This should not however be necessary if the following tax advice is taken by the Matures.

As 90% of Mrs Mature's personal allowance is being wasted it would be advised that the property should be put into joint ownership and as such the income from a jointly owned asset will be split 50:50 between the spouses allowing Mrs Mature to use all of her personal allowance and thus remove a significant amount of the property income from tax,

If this advice was followed then based on the 2018/19 figures a tax saving of £2,132 would be achieved (see below).

Revised calculations

	<i>Mr Mature</i>		<i>Mrs Mature</i>
Property Income	17,500		17,500
Total Income	17,500		17,500
Less: Personal Allowance	(11,850)		(11,850)
Taxable income	5,650		5,650
Tax calculation			
5,650 @ 20%	1,130	5,650 @ 20%	1,130
Tax liability	1,130		1,130
Combined liability	£2,260		
Original liability	£4,392		
Tax Saving	£2,132		

6 Michael**Michael Income tax computation 2018/19**

	<i>Non savings</i>
Employment income	116,000
Total income	116,000
Less Personal allowance (W1)	(8,850)
Taxable income	107,150
 Tax calculation	 <i>£</i>
Non savings	
44,500 (W2) @ 20%	8,900
<u>62,650 @ 40%</u>	<u>25,060</u>
107,150	
Income tax liability	33,960
(W1)	
Net Income	116,000
Less: PPC (8,000 x 100/80)	(10,000)
Adjusted net income	106,000
 Personal allowance	 11,850
Less $\frac{1}{2} \times (106,000 - 100,000)$	<u>(3,000)</u>
Revised Personal allowance	8,850

W2 The basic rate band is extended by the gross amount of the personal pension contributions paid (34,500 + 10,000 = 44,500)

7 Peter

	£	£
Rental income		
Property A - Rent received (4 quarterly payments)		4,000
Property B - Rent received $\frac{3}{4} \times £5,000$		<u>2,500</u>
		6,500
Expenses		
Property A		
Insurance	420	
Repainting exterior	810	
Roof repairs (pre-trading expenditure)	1,600	
Property B		
Insurance	585	
Letting expenses	40	
Replacement furniture relief (note 1)	<u>380</u>	
		<u>(3,835)</u>
Property Income for the tax year 2018/19		<u>2,665</u>

note 1 Replacement furniture relief

No relief is available for the initial cost of the items purchased. Relief is available, however on the replacement of the fridge and the washing machine. Relief for the fridge freezer purchased is restricted to the purchase cost of an equivalent fridge reduced by the proceeds received from the sale of the old fridge ($350 - 120 = 230$). The washing machine is replaced by a similar model and again its cost is reduced by the proceeds of sale of the original asset ($250 - 100 = 150$)

8 Matthew

The Property loss for the tax year 2018/19 will be £3,500 calculated as follows:

	£
Rental income ($5,000 + 4,000 + 1,500$)	10,500
Expenses ($7,500 + 2,000 + 4,500$)	<u>14,000</u>
Property loss	<u>(3,500)</u>

This is carried forward against future property income only.

If the expenses on Cottage 1 included mortgage interest payable for 2018/19 of £2,400 only 50% of the interest payable would be allowed as a deductible expense with the remaining 50% (£1,200) achieving a basic rate tax deduction of £240 ($1,200 \times 20\% = 240$) in computing the tax liability of Matthew.

9 Charlie

Gross rents do not exceed £7500 ($52 \times 100 = £5,200$) and therefore rent a room relief is still available in 2018/19 so two possible tax treatments may apply:

(1) Normal calculation

	£
Rental income	5,200
less expenses	(6,100)
Property Income loss	(900)

(2) Alternative calculation

	£
Gross rents	5,200
less rent a room relief	(7,500)
Property Income	Nil

Charlie should withdraw the election for 2018/19 so he is allowed a loss of £900 to carry forward from 2018/19

10 John

The adjusted profit should be £48,120 calculated as follows:

	£	£
Net profit per accounts		35,950
Deduct		
Rent received	9,500	
Business use of office at private home	250	
Business use of private telephone: (£450 × ⅔)	180	
		(9,930)
		26,020
Add back:		
Wages and salaries	0	
Rent and rates: £12,900 × ⅒	1,290	
Light and heat: £5,250 × ⅓	750	
Depreciation of fixtures and fittings	1,500	
Insurance	0	
John's business travel	0	
Christmas presents for staff	0	
Entertaining UK customers	5,050	
Gifts of chocolate to customers	125	
Gifts of calendars	0	
Trading debt written off	0	
Increase in allowance	0	
Non trading loan written off	200	
Trade debt recovered (Taxable)	0	
Depreciation of vehicles	7,500	
Private motor expenses: £3,300 × 4,000/12,000 (W1)	1,100	
Salesman's motor car expenses	0	
Donation to national charity	50	
Donation to local charity	0	
Political donation	100	
Subscription to chamber of commerce	0	
Gift to employee on marriage	0	
Squash club subscription	250	
Advertising in trade press	0	
Cost of renewing 21 year lease	0	
Accountancy:		
Taxation services re capital gains tax	750	
Balance	0	
Interest on bank overdraft	0	
Van expenses	0	
Telephone	0	
Repairs to office photocopier	0	
New printer	650	
Central heating	2,200	
Decorating the office	0	
Goods for own consumption: £450 × 130/100	585	
		22,100
Adjusted trading profit		48,120

(W1) Total mileage	12,000
Private (touring)	(2,000)
	10,000
Private 20% × 10,000	2,000
Business 80% × 10,000	8,000

Total private use 4,000/12,000

11 Carl

Year ended 31 March 2018

	£	Main Pool £	Special Rate Pool £	Allowances £
WDV b/f		23,500		
Additions Qualifying for AIA				
Machinery	176,000			
Lorries	30,500			
	206,500			
AIA(Maximum)	(200,000)			200,000
		6,500		
Other additions				
Motor car > 110 g/km			16,600	
Disposals		(5,000)		
		25,000	16,600	
WDA @ 18%		(4,500)		4,500
WDA @ 8%			(1,328)	1,328
				205,828
WDV c/f		20,500	15,272	

Year ended 31 March 2019

WDV b/f		20,500	15,272	
Additions Qualifying for AIA				
Thermal insulation for business building	120,000			
AIA	(120,000)			120,000
				-
Other Additions				
Motor car (51 - 110g/km)		7,500		
Disposals			(12,000)	
		28,000	3,272	
WDA @ 18%		(5,040)		5,040
WDA @ 8%			(262)	262
				125,302
WDV c/f		22,960	3,010	

12 Jason

		£
2017/18: Actual		
1 July 2017 - 5 April 2018	$(\frac{9}{11} \times 33,000)$	<u>27,000</u>
2018/19: 1st 12 months (no CYB)		
1 July 2017 - 30 June 2018	$33,000 + (\frac{1}{12} \times 24,000)$	<u>35,000</u>
2019/20 (CYB)		
Year ended 31 May 2019		<u>24,000</u>
2020/21: (CYB)		
Year ended 31 May 2020		<u>36,000</u>
		£
Overlap profits	1 July 2017 - 5 April 2018	27,000
	1 June 2018 - 30 June 2018	$(\frac{1}{12} \times 24,000)$
		<u>2,000</u>
		29,000

13 Stephen

			£
2013/14	Actual	1/2/2014 – 5/4/2014	$(30,000 \times \frac{2}{15})$
			<u>4,000</u>
2014/15	Actual	6/4/2014 – 5/4/2015	$(30,000 \times \frac{12}{15})$
			<u>24,000</u>
2015/16	12 months to accounting date ended in tax year	12m to 30/4/2015	$(30,000 \times \frac{12}{15})$
			<u>24,000</u>
2016/17	CYB	Y/e 30/4/2016	<u>10,000</u>
2017/18	CYB	Y/e 30/4/2017	<u>12,000</u>
2018/19	CYB	Y/e 30/4/2018	<u>15,000</u>
2019/20	Remaining profits less overlap	Y/e 30/4/2019	18,000
		P/e 31/10/2019	<u>7,000</u>
		Less: Overlap	25,000
		1/5/2014 – 5/4/2015	$(\frac{11}{15} \times 30,000)$
			<u>(22,000)</u>
			3,000

14 Grace

The capital allowances, computed for each period of account, are as follows:

Period to 31 July 2019

	£	Main Pool	Allowances
	£	£	£
Additions qualifying for AIA			
Plant 1/5/2018	69,500		
AIA (max 15/12 x 200,000)	<u>69,500</u>		69,500
Other Additions - Car (51 - 110g/km) 1/12/2018		21,600	
WDA (18% x 15/12 x 21,600)		<u>(4,860)</u>	4,860
			<u>74,360</u>
WDV c/f		<u>16,740</u>	

Accounting Year ended 31 July 2020

WDV b/f		16,740	
Additions qualifying for AIA			
Plant 1/10/2019	40,000		
AIA	<u>(40,000)</u>	-	40,000
	-		
WDA @ 18%		<u>(3,013)</u>	3,013
			<u>43,013</u>
WDV c/f		<u>13,727</u>	

Accounting Year ended 31 July 2021

WDV b/f		13,727	
Additions qualifying for AIA			
Plant 1/2/2021	25,000		
AIA	<u>(25,000)</u>		25,000
Disposal		<u>(13,000)</u>	
		727	
Small Pool WDA		<u>(727)</u>	727
			<u>25,727</u>
WDV c/f		-	

The car was for the use of an employee of the business, not the proprietor, so the private use does not impact on the capital allowances

The Trading profits of the first three periods of account are as follows.

Period of account	Working	Trading Profits
1/5/2018 - 31/7/2019	£(128,360 - 74,360)	54,000
1/8/2019 - 31/7/2020	£(88,013 - 43,013)	45,000
1/8/2020 - 31/7/2021	£(75,727 - 25,727)	50,000

The assessments are as follows.

Year	Basis of Assessment	Basis period	Working	Assessment
2018/2019	Actual	1/5/2018 - 5/4/2019	£54,000 × $\frac{11}{15}$	39,600
2019/2020	12 months to accounting date ended in tax year	1/8/2018 - 31/7/2019	£54,000 × $\frac{12}{15}$	43,200
2020/21	CYB	A/C y/e 31/7/2020		45,000
2021/22	CYB	A/C y/e 31/7/2021		50,000

Overlap profits are those from 1/8/2018 - 5/4/2019 ie: $\frac{8}{15} \times £54,000 = £28,800$

15 David

Capital allowances for each period of account:

Year ended 5 April 2019

	<i>£</i>	<i>Main Pool</i> <i>£</i>	<i>Allowances</i> <i>£</i>
WDV b/f		14,800	
Additions qualifying for AIA			
Plant	2,800		
AIA - 100%	<u>(2,800)</u>		2,800
		<u>—</u>	
		14,800	
WDA @ 18%		<u>(2,664)</u>	2,664
			<u>5,464</u>
WDV c/f		<u>12,136</u>	

Year ended 5 April 2020

WDV b/f		12,136	
Additions qualifying for AIA			
Plant	4,600		
AIA - 100%	<u>(4,600)</u>		4,600
		<u>—</u>	
		12,136	
WDA @ 18%		<u>(2,184)</u>	2,184
			<u>6,784</u>
WDV c/f		<u>9,952</u>	

Period to 30 June 2020

WDV b/f		9,952	
Disposal		<u>(4,000)</u>	
		5,952	
Balancing allowance		<u>(5,952)</u>	5,952
		<u>—</u>	

Profits for periods of account:

<i>Period of account</i>	<i>Working</i>	<i>Trading profit</i> <i>£</i>
6/4/2018 - 5/4/2019	(25,000 – 5,464)	19,536
6/4/2019 - 5/4/2020	(27,000 – 6,784)	20,216
6/4/2020 - 30/06/2020	(14,000 – 5,952)	8,048

	<i>Trading profit Assessments</i>	<i>£</i>	<i>£</i>
2018/19	CYB (y/e 5/4/2019)		19,536
2019/20	CYB (y/e 5/4/2020)		20,216
2020/21	6/4/2020 - 30/6/2020	8,048	
	Less overlap profit	<u>(2,000)</u>	6,048

16 Max**(a) Trading profit assessments**

	<i>Trading profit assessments</i> £	<i>Trading loss</i> £
2017/18 (Actual) (1/1/2018 - 5/4/2018)		
3/12 × (12,000) (loss)	Nil	3,000
2018/19 (CYB) (y/e 31/12/2018) (loss)		
(12,000-3,000 (used in 17/18))	Nil	9,000
2019/20 (CYB)		
Y/e 31/12/2019 (loss)	Nil	4,000
		<u>16,000</u>
2020/21 (CYB)		
Y/e 31/12/2020	8,000	
Less: brought forward loss	<u>(8,000)</u>	(8,000)
	<u>Nil</u>	
2021/22 (CYB)		
Y/e 31/12/2021	11,500	
Less: brought forward loss	<u>(8,000)</u>	(8,000)
	<u>3,500</u>	
Loss carried forward		<u>Nil</u>

(b) Opening years loss relief

2017/18 loss of £3,000	This can be relieved against total income of 2014/15, 2015/16, 2016/17 in that order.
2018/19 loss of £9,000	This can be relieved against total income of 2015/16, 2016/17, 2017/18 in that order.
2019/20 loss of £4,000	This can be relieved against total income of 2016/17, 2017/18, 2018/19 in that order.

The revised net income for 2014/15 to 2017/18 is as follows:

	£	£
Loss sustained in 2017/18		3,000
2014/15		
Employment income	19,200	
Less: opening years loss relief	<u>(3,000)</u>	<u>(3,000)</u>
Net Income	<u>16,200</u>	<u>Nil</u>
Loss sustained in 2018/19		9,000
2015/16		
Employment income	23,800	
Less: opening years loss relief	<u>(9,000)</u>	<u>(9,000)</u>
Net Income	<u>14,800</u>	<u>Nil</u>
Loss sustained in 2019/20		4,000
2016/17		
Employment income	20,100	
Less: opening years loss relief	<u>(4,000)</u>	<u>(4,000)</u>
Net Income	<u>16,100</u>	<u>Nil</u>

17 Elliot

Assessments

	£
2015/16	
y/e 31 Dec 2015	60,000
2016/17	
y/e 31 Dec 2016	30,000
2017/18	
y/e 31 Dec 2017	40,000
2018/19	
y/e 31 Dec 2018	NIL (loss of £60,000)

Income Tax Computations

	2015/16	2016/17	2017/18	2018/19
	£	£	£	£
Trading profit	60,000	30,000	40,000	NIL
Property Income	6,000	6,000	6,000	6,000
Total Income	66,000	36,000	46,000	6,000
Current year (no claim)				(-)
Carryback			(46,000)	
Net income	66,000	36,000	Nil	6,000
Personal Allowance	(11,850)	(11,850)	(11,850)	(11,850)
Taxable income	54,150	24,150	Nil	Nil

Loss memo:

	£
Trading loss 2018/19	60,000
Carryback 2017/18	(46,000)
Trading loss available to carry forward	14,000

A current year offset could be chosen but this would waste the Personal allowance of 2018/19 without achieving any tax saving. The carry back against total income in 2017/18 is unrestricted as the non trading total income (6,000), does not exceed £50,000. As Elliot has traded for many years the special opening years loss relief allowing a 3 year carry back is not available.

If Elliot ceased trading at 31 December 2018 terminal loss relief would be available allowing the available trading loss to be carried back and set off against the trading profit assessments of the preceding 3 tax years on a LIFO basis, starting with the £40,000 trading profit assessment in 2017/18. Terminal loss relief is available for the loss sustained in the last 12 months of trading which will include the full £60,000 loss. A separate calculation is required which divides the last 12 month period between the final tax year and the penultimate tax year. The loss of the final tax year would also include any overlap relief from the opening tax years.

18 Anne and Betty

- (a) (1) Each partner is treated as a sole trader running a business and is assessed on his / her share of the adjusted trading profit of the partnership using the relevant basis of assessment for each partner. Continuing partners will be assessed using CYB.
- (2) The commencement rules apply when a new partner joins the partnership.
- (3) The cessation rules apply when an existing partner leaves the partnership.

	<i>Total</i>	<i>Anne</i>	<i>Betty</i>	<i>Chloe</i>
A/C year ended 31/12/2018	<u>60,000</u>			
1/1/2018 – 30/6/2018				
(6/12 x 60,000) PSR1:1	30,000	15,000	15,000	
1/7/2018 – 31/12/2018				
(6/12 x 60,000) PSR 2:1	<u>30,000</u>	<u>20,000</u>		<u>10,000</u>
	<u>60,000</u>	<u>35,000</u>	<u>15,000</u>	<u>10,000</u>
A/C year ended 31/12/2019	<u>72,000</u>			
PSR 2:1		<u>48,000</u>		<u>24,000</u>

Assessments

£

Anne

2018/19 (CYB)

A/C year ended 31/12/2018

35,000

2019/20 (CYB)

A/C year ended 31/12/2019

48,000

Betty (note 1)

2018/19

6 months to 30/6/2018

15,000

Less: Overlap relief

(3,000) 12,000

Chloe (note 2)

2018/19 (Actual)

(1/7/2018 – 5/4/2019)

10,000 + (3/12 x 24,000)

16,000

2019/20 (CYB)

A/C year ended 31/12/2018

24,000

Note 1 Betty

Betty ceased trading on 30/6/2018 so her final tax year of assessment is 2018/19 in which she will be assessed on all remaining profit as yet not assessed less her overlap relief. Therefore in the preceding tax year, 2017/18 she would have been assessed on her normal CYB i.e. on her share of the profit of the accounting year ended 31/12/2017. The only remaining profit to be assessed is therefore for her final 6 months of trading to 30/6/2018 which is then reduced by the available overlap relief.

Note 2 Chloe

Chloe commenced trading on 1 July 2018 so her first tax year of assessment is 2018/19 in which an actual basis applies. She is able to use CYB from 2019/20 which will generate an overlap profit of £6,000 (3/12 x 24,000)

- (c) (1) Daniel and Frank can carry the loss forward against future trading profits.
 (2) Daniel, Elvis and Frank can claim against total income for 2018/19 and/or 2017/18
 (3) Frank can claim against total income for 2015/16, 2016/17 and 2017/18. (Special opening year loss relief)
 (4) Elvis can claim against trading profit for 2017/18, 2016/17 and 2015/16. (Terminal loss relief)

19 Renner

Income tax computation - 2018/19

	<i>Non-savings £</i>	<i>Dividends £</i>	<i>Total £</i>
Employment income (W1)	51,058		51,058
Dividend income (20,000 × 40p)		8,000	8,000
Total Income	51,058	8,000	59,058
Less PA	(11,850)		(11,850)
Taxable income	39,208	8,000	47,208

Income tax		<i>£</i>	<i>£</i>
Basic rate:	Non savings	34,500 @ 20%	6,900
Higher rate:	Non-savings	4,708 @ 40%	1,883
	Dividends	2,000 @ 0%	0
		6,000 @ 32.5%	1,950
Income tax liability			10,773

Workings

(W1) Employment income

	<i>£</i>
Salary	
($\frac{8}{12} \times £28,500$)	19,000
($\frac{4}{12} \times £33,000$)	11,000
	30,000
Bonus (February 2019)	4,200
Benefits (W2)	17,758
	51,958
Less: Occupational pension contributions ($3\% \times £30,000$)	(900)
Employment income	51,058

(W2) Benefits

	£	£
(a) Use of yacht (Two weeks use only)		
Annual value		
$20\% \times (\text{M.V. when first made available to any employee})$		
$(20\% \times £42,000 \times 2/52)$	323	
Running expenses $(£6,000 \times 2/52)$	<u>231</u>	
		554
(b) Private medical insurance - Cost to employer		270
(c) Subsidised canteen - Exempt benefit		-
(e) Car scale charges		
Pool car - exempt benefit		-
Mini (W3)		4,950
Fuel charge (petrol)		
Mini (W3)		7,020
(f) Employer's contribution into pension - Exempt benefit		-
(g) Beneficial loan $£20,000 \times (2.5\% - 2\%)$		100
(h) Use of computer equipment		
MV when first provided		
Use of asset $(20\% \times £2,010)$		402
(i) Living accommodation		
Annual value for ten months	900	
Additional charge for expensive accommodation		
$[(£138,000 - £75,000) \times 2.5\% \times 1/12]$	1,312	
Council tax	550	
Electricity	260	
Telephone	110	
Cleaning	130	
Use of furniture $(20\% \times £7,200 \times 10/12)$	<u>1,200</u>	
		<u>4,462</u>
Total assessable benefits		<u>17,758</u>

(W3) Mini - Car and fuel benefits

CO₂ emissions = 145g/km (rounded down to the nearest 5g/km)

Petrol engine

Appropriate percentage = $20\% + (145 - 95) / 5 = 10\%$
= 30%

Car benefit $(30\% \times £16,500)$	<u>£4,950</u>
Fuel benefit $(30\% \times £23,400)$	<u>£7,020</u>

20 George

- (a) The maximum allowable contribution that George may make into his pension scheme, subject to his earnings level for a year is his annual allowance limit of £40,000 for 2018/19 plus any unused allowance brought forward from the previous 3 years. For this purpose we compare the gross amount of contributions made in the year with annual limits of £40,000 for each tax year so long as he was a member of a pension scheme for the tax year in question.

His payment of £48,000 will represent a gross pension contribution of £60,000 ($48,000 \times 100/80$). As this exceeds the annual allowance of £40,000 for 2018/19 he will now be able to use any unused allowance brought forward from the previous 3 years on a FIFO basis i.e. 2015/16, 2016/17 and 2017/18.

As George was not a member of a pension scheme in 2015/16 no unused allowance will be available to carry forward from this year. £12,000 of unused allowance ($40,000 - 28,000$) is available from 2016/17 and will now be fully utilised, followed by £8,000 of the £17,000 ($40,000 - 23,000$) unused allowance from 2017/18.

Tax relief will therefore be available on the full contribution of £60,000 (gross) made in 2018/19 and George will have £9,000 ($17,000 - 8,000$) of unused allowance to carry forward to 2019/20 which will permit a maximum allowable gross contribution of £49,000 to be made in 2019/20.

- (b) **Osbourne – Income Tax Computation 2018/19**

	£		
Employment Income	170,000		
Personal Allowance (note 1)	<u>(11,850)</u>		
Taxable Income	<u>158,150</u>		
Income Tax Liability			
	124,500 (note 2)	@ 20%	24,900
	<u>33,650</u>	@ 40%	13,440
AA Charge (note 3)	40,000	@ 40%	<u>16,000</u>
			<u>54,340</u>

The basic and higher rate bands are extended by the gross amount of personal pension contributions ($34,500 + 90,000$) = 124,500 and ($150,000 + 90,000$) = 240,000

Osbourne has employment income of £170,000pa and hence all of the £90,000 pension contribution will attract tax relief.

Note 1 Adjusted Net Income = $170,000 - 90,000 = 80,000$. As this does not exceed 100,000 there is no restriction of PA.

Note 2 The basic and higher rate bands are increased by the gross personal pension contribution of £90,000.

Note 3 Osbourne with employment income of £170,000pa has a tapered annual allowance for both 2018/19 and 2017/18 of £30,000 ($40,000 - ((170,000 - 150,000) / 2)$) and therefore has £20,000 ($30,000 - 10,000$) brought forward unused allowance from 2017/18. There is no unused AA brought forward from earlier years. Therefore in 2018/19 an Annual Allowance Charge will arise of £40,000 ($90,000 - 50,000$) which is taxed at a marginal rate of 40%. as the £40,000 AA charge all falls within the extended higher rate band limit.

21 Tony

(a) Class 1 NICs

Employees

Jack	$(18,200 - 8,424) \times 12\% =$	1,173
Jill	$(12,480 - 8,424) \times 12\% =$	487

Employer's

Jack	$(18,200 - 8,424) \times 13.8\% =$	1,349
Jill	$(12,480 - 8,424) \times 13.8\% =$	560

		1,909
Less: Employment allowance		(3,000)

		Nil
Total Class 1 NIC		1,660

(b) Class 2 NICs

$52 \times £2.95$	153
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Class 4 NICs

$(18,479 - 8,424) \times 9\%$	905
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22 Chorley Ltd

Adjustment of Trading Profit - Year ended 31 December 2018

	£
Profit before tax per Accounts	6,868
Deduct	
Profit on sale of business premises	(1,750)
Add back:	
Advertising	0
Irrecoverable debts	0
Depreciation	2,381
Light and heat	0
Subscription to printer association	0
Contribution to local Enterprise agency	0
Gifts to customers:	
Calendars	0
Food hampers (1)	95
Director use of car (2)	0
Rates	0
Refurbishing press (3)	522
Redecorating adm offices	0
Building extension (3)	1,647
Staff Christmas lunch and wages (4)	0
Telephone	0
Adjusted trading profit	9,763

Notes

- (1) Gifts to customers are disallowed unless they amount to £50 or less per customer during the year and display a conspicuous advert for the business. Gifts of food, drink or tobacco are disallowed irrespective of their cost.
- (2) Motor car expenses are all allowable for the company although the director will be taxed as an employee on the private use of the car.
- (3) Refurbishment of the second hand press is disallowed on the grounds that the expenditure was necessary before it was brought into use in the business. The extension of the paper store created a new asset and was not the repair of part of an existing one.
- (4) The expenditure on the Christmas lunch is allowable for the employer.

23 Sail Ltd

Corporation tax computation for the year ended 31 March 2019

	£
Trading profit	380,000
Interest receivable	9,000
Property Income	12,000
Chargeable gains	21,000
Total profits	422,000
Less: Qualifying charitable donations	(22,000)
Taxable Total profits	400,000
Dividends received from non subsidiary companies	50,000
'Augmented profits'	450,000
Corporation tax liability	
£400,000 at 19%	76,000

Note 1: Profit limit $1,500,000 \div 2$ (Sail Ltd plus one related 51% group company) = £750,000 reduced profit limit.

As the augmented profit of Sail Ltd does not exceed the profit limit of £750,000, then irrespective of the level of profits in the previous period it will not be required to make quarterly instalment payments. The corporation tax will therefore need to be paid nine months and one day after the end of the accounting period ie by 1 January 2020.

24 Swish Ltd

(a) Computation of Trading loss for the year ended 31 March 2019

	£	£
Net loss per accounts		(116,500)
Add back: Depreciation	10,800	
Entertaining	1,200	
		12,000
		(104,500)
Less: Capital allowances £20,000 × 18%		(3,600)
Trading Loss		(108,100)

(b)

	Year ended 31 March	
	2018	2019
	£	£
Trading profit	40,000	Nil
Interest receivable	2,000	3,500
Chargeable gain	–	44,500
Total Profits	42,000	48,000
Less: Current Year / Carry back loss relief	(42,000)	(48,000)
Taxable Total Profit	Nil	Nil

Loss memorandum

Loss for y/e 31/3/19 (part (a))	108,100
Less: Current Year relief y/e 31/3/19	(48,000)
Carry back relief y/e 31/3/18	(42,000)
Loss available to carry forward against future total profits	18,100

25 Trunk Limited

Matching rules

» same day	x
» previous 9 days	✓ 1,000

Calculate the gain:

	£
	16,000
Less cost	(15,000)
Chargeable Gain	1,000
Share Pool	

	<i>Number</i>	<i>Cost</i>	<i>Indexed cost</i>
July 1994	1,000	10,000	10,000
			480
	1,000	10,000	10,480
Purchase February 1996	500	6,000	6,000
	1,500	16,000	16,480
Bonus issue 1:2	750	–	–
	2,250	16,000	16,480
			1,483
	2,250	16,000	17,963
Rights issue 1:3 @ £9 per share	750	6,750	6,750
	3,000	22,750	24,713
			17,373
	3,000	22,750	42,086
Sale October 2018	(1,500)	(11,375)	(21,043)

Calculate the gain

	£
	24,000
Less cost	(11,375)
Unindexed gain	12,625
Less indexation allowance (21,043 – 11,375)	(9,668)
Chargeable gain	2,957
Total chargeable gains:	
Previous 9 days	1,000
Pool	2,957
Chargeable gains to include in Corporation tax computation	3,957

26 Granger Limited

(1) Sale of land

	£
Proceeds	4,500
	<u>(900)</u>
Unindexed gain	3,600
	<u>(1,075)</u>
Chargeable Gain	2,525

(2) Sale of antique furniture - Non wasting chattels rules

	£
Deemed Proceeds	6,000
Less cost	<u>(8,000)</u>
Capital loss	(2,000)

(3) Sale of painting - Non wasting chattel rules

(a) Normal calculation

	£
Proceeds	6,600
Less cost	<u>(2,000)</u>
Unindexed gain	4,600
	<u>(1,750)</u>
Chargeable Gain	2,850

(b) Restricted to

$$\frac{5}{3} [6,600 - 6,000] = 1,000$$

Take lower gain = £1,000

Total chargeable Gains

	£
Land	2,525
Painting	1,000
Antique	<u>(2,000)</u>
Net Chargeable Gains	1,525

27 Westcroft Limited

	£
Disposal proceeds	500,000
Less cost	(100,000)
Unindexed gain	400,000
	(33,800)
Chargeable Gain	366,200

As the proceeds have been partly used within 12 months of receiving the monies to buy a replacement asset, therefore some of the gain can be deferred. However as only part of the proceeds have been used, some of the gain is chargeable immediately.

Proceeds	500,000
Cost of replacement	(450,000)
Chargeable now	50,000

Available to defer
 $£366,200 - £50,000 = £316,200$

When the replacement painting is sold the base cost is:

Actual cost	450,000
Less Gain Deferred	(316,200)
Base cost	133,800

28 Mighty Ltd

The chargeable gain on the disposal of the freehold factory is £40,000 (£160,000 - £120,000).

(a) Larger freehold factory

The full gain will be rolled over against the base cost of the new factory as all the proceeds are reinvested:

	£
Cost of factory	170,000
Gain rolled over	(40,000)
Base cost of new factory	130,000

(b) Smaller freehold factory

As not all of the proceeds are reinvested, the capital gain element that cannot be rolled over and will remain chargeable will be £5,000 (£160,000 - £155,000). This will be immediately chargeable to corporation tax. The balance of the gain will be rolled over as follows:

	£
Cost of factory	155,000
Gain rolled over (£40,000 - £5,000)	(35,000)
Base cost of new factory	120,000

(c) Lease

If all the proceeds are used to acquire a depreciating asset (one with an expected life of no more than 60 years), the capital gain is deferred until the earlier of:

- » the date that the leasehold property is sold
- » the date when the leasehold property ceases to be used in Mighty Ltd's trade
- » the expiry of ten years from the acquisition date.

Therefore the base cost of the lease remains at £180,000. If, before the held over gain becomes chargeable, a non-depreciating asset is acquired, the capital gain can be rolled over in the usual way. In this question, if the freehold of the factory is acquired in the next two to three years, all the proceeds

will be reinvested and so the rollover claim would switch to the freehold factory cost of £200,000.

In all the cases above the reinvestment must take place within 1 year before to 3 years after the disposal date if the gain is to be eligible for relief.

29 Claude

Claude 2018/19 Capital Gains Tax

	£
Capital Gain	31,000
Capital Gain	24,000
Capital Loss	(7,000)
Net Capital gains arising in 2018/19	48,000
Less: Capital loss brought forward	(10,000)
Net Capital Gains	38,000
Less: Annual Exempt Amount (AEA)	(11,700)
Taxable Gains	26,300
Capital Gains Tax payable $£26,300 \times 20\%$	<u>£5,260</u>

Claude is a higher rate taxpayer and hence all the taxable gains are taxed at 20%. The CGT will be due for payment on 31 January 2020

30 Cheryl

	£
Chargeable Gain	40,000
Less: AEA	(11,700)
Taxable gains	28,300
Capital Gains Tax (W1)	£5,110
Due	31/1/2020

(W1) Basic rate band remaining

$$£34,500 + (£1,600 \times 100/80) = £36,500 - £31,000 = £5,500$$

	£
$5,500 \times 10\% =$	550
<u>$22,800 \times 20\% =$</u>	<u>4,560</u>
28,300	5,110

31 Shamus

As all proceeds have been used in restoring the asset, and a claim has been made to deduct the proceeds from the cost on a future disposal, there is no gain arising in January 2019.

Base cost of restoration property when sold

Original cost	124,000
Restoration cost	60,000
Less Insurance Proceeds	<u>(50,000)</u>
Base cost	134,000

If no claim was made – the receipt of the proceeds would be a part disposal in January 2019.

	£
Proceeds	50,000
	<u>(29,524)</u>
Gain	20,476

On subsequent sale of the restored asset

Original cost (124,000 – 29,524)	=	94,476	Oct 2017
Restoration	=	<u>60,000</u>	Feb 2019
Base cost		154,476	

32 Zoe**Apply matching rules**

i) same day	X		
ii) Next 30 days	✓	10/2/2019	200 shares
Calculate a Gain			
Proceeds $\frac{200}{1000} \times 20,000 =$		4,000	
less cost		(3,600)	
Capital Gain		<u>400</u>	

iii) Share Pool

✓

	<i>Number</i>	<i>Cost</i>
30/4/2018 Acquisition	1,500	18,000
31/5/2018 Acquisition	<u>500</u>	<u>7,000</u>
	2,000	25,000
31/1/2019 Disposal	<u>(800)</u>	<u>(10,000)</u>
	1,200	15,000

Calculate the Gain

Proceeds $\frac{800}{1000} \times 20,000 =$

16,000

Less cost

(10,000)

Capital Gain

6,000

Summary

Next 30 days 400

Share Pool 6,000

Total Capital Gains 6,400

33 Michael**Apply matching rules**

i) same day	X
ii) Next 30 days	X
iii) Share Pool	✓

	<i>Number</i>	<i>Cost</i>
January 2018	2,700	5,400
May 2018	600	1,500
June 2018 Rights issue 1:3 @ £2:30	<u>1,100</u>	<u>2,530</u>
	4,400	9,430
Disposal August 2018	<u>(4,000)</u>	<u>(8,573)</u>
	400	857

Calculate the Gain

Proceeds 14,000

Less cost (8,573)

Capital Gain 5,427

34 Jenny

Gains not qualifying for Entrepreneurs Relief (ER)

	£
Investment commercial property	80,000
Less capital loss b/f (note 2)	(15,000)
	<u>65,000</u>
Less AEA (note 2)	(11,700)
	<u>53,300</u>
CGT @ 20% (Note 1)	£10,740

Gains qualifying for ER

	£
Sale of business	
Goodwill	100,000
Factory	250,000
Warehouse	(50,000)
	<u>300,000</u>
Sale of shares	145,000
	<u>445,000</u>
CGT @ 10%	£44,500

Total CGT £44,500 + £10,740 = **£55,240** Due 31 January 2020

Note:

- (1) Jenny's taxable income is below the basic rate band but the gains qualifying for ER effectively use up the remaining basic rate band such that gains not qualifying for ER are taxed at 20%
- (2) The capital loss brought forward and the annual exempt amount are used in priority against those gains taxed at the highest tax rate.
- (3) The remaining gains eligible for ER in future years are $(10,000,000 - 445,000) = £9,555,000$

35 Beth

(a) New factory purchased for £700,000

	£	£
Purchase cost of new factory		700,000
Capital gain on old factory (£750,000 - £635,000)	115,000	
Gain immediately chargeable (£750,000 - £700,000)	(50,000)	
Gain rolled over		<u>(65,000)</u>
Base cost of new factory		635,000

Entrepreneurs' relief is not available on the £50,000 gain chargeable as it is only the disposal of an asset used in the business not the disposal of the business itself.

(b) New factory purchased for £550,000

In this case the amount of proceeds not reinvested of £200,000 ($750,000 - 550,000$) exceeds the gain made on the old factory. Thus none of the gain is eligible to be rolled over and so there is no adjustment to the base cost of the new factory. It remains at the purchase price of £550,000.

If further qualifying business assets were to be acquired by December 2021 (within 3 years of disposal date) then claims for rollover relief against those assets may become available

As above entrepreneurs' relief is not available.

36 Wendy**(a) Wendy - Capital gain on shares sold in January 2019**

	£	£
Market value of shares in January 2019		165,000
Less: cost		(40,000)
		<u>125,000</u>
Less: Gain deferred with gift relief claim		
Gain	125,000	
Less: (Proceeds received - Actual cost) = (70,000 - 40,000)	<u>(30,000)</u>	
		<u>(95,000)</u>
Chargeable Gain (70,000 - 40,000)		30,000

Gift relief is available as shares in an unquoted trading company are qualifying business assets. As the disposal was a sale at undervalue it is still the OMV of the shares that is used in computing the gain but as the actual proceeds received exceed the actual cost of the shares then that part of the gain remains chargeable on Wendy and only the remaining part of the gain is eligible for gift relief

(b) Wendy's grandson - Base cost

	£
Market value of shares, January 2019	165,000
Less: Gain deferred	(95,000)
Base cost	<u>70,000</u>

37 Amy

Proceeds	400,000
Less cost	<u>(190,270)</u>
Gain	209,730
Less PPR relief (W1)	(57,055)
Less letting relief (W2)	<u>(9,509)</u>
Chargeable Gain	143,166

(W1)	<i>Actual & Deemed</i>	<i>Letting</i>	<i>Non occupation</i>	<i>Total</i>
1/4/85 – 1/4/86	12m			
1/4/86 – 30/9/90 (any reason)	36m	18m		
1/10/90 – 1/4/94	42m			
1/4/94 – 1/5/18 (last 18 months)	<u>18m</u>		<u>271m</u>	
	108m	<u>18m</u>	<u>271m</u>	397m

$$\text{PPR } 209,730 \times \frac{108}{397} = 57,055$$

(W2) Letting relief
Lower of
- 58,883
- 40,000
- $\frac{18}{397} \times 209,730 = 9,509$

Letting relief = £9,509

38 Nathan**(a) Chargeable transfers**

	23/10/2007 CLT	17/09/2012 PET	26/08/2014 CLT
Transfer value	356,000	47,000	276,000
Less: Exemptions:			
AE 2007/08	(3,000)		
AE 2006/07	(3,000)		
Marriage exemption		(1,000)	
AE 2012/13		(3,000)	
AE 2011/12		(3,000)	
AE 2014/15			(3,000)
AE 2013/14			(3,000)
Chargeable Transfer	350,000	40,000	270,000

Note: Transfer to civil partner on 14/02/2014 is exempt

Computation of IHT on lifetime transfers chargeable when made

	£	Gross	IHT
23/10/2007 CLT	350,000	362,500	12,500
300,000 @ NRB = nil			
50,000 @ 25% = 12,500			
Tax paid by Nathan due 30/04/2008			
26/08/2014 CLT	270,000	270,000	54,000
NRB of £325,000 deemed used by Gross Chargeable Transfers(GCT's) in previous 7 years		632,500	
∴ 270,000 @ 20%			

Tax paid by trustees due 30/04/2015

If the transfer into trust had been delayed until after 23/10/2014 then the CLT made on 23/10/2007 would be more than 7 years prior to the transfer and would not therefore impact on the tax calculation, meaning that the £270,000 transfer would all fall within the nil rate band and no IHT would have been payable!

(b) Computation of IHT on lifetime transfers chargeable on death - 30 November, 2018

	Gross	IHT
GCT's in 7 years before 17/09/2012	362,500	–
17/09/2012 PET	40,000	16,000
∴ All £325,000 NRB deemed used = 40,000 @ 40%	402,500	
Less: Taper relief (80%)		(12,800)
Tax payable and borne by donee (nephew)		3,200
26/08/2014 CLT	270,000	108,000
GCT's in previous 7 years exceed NRB	672,500	
∴ 270,000 @ 40%		
Less: Taper relief (40%)		(43,200)
Lifetime Tax Paid		(54,000)
Additional Tax Due on Death paid by trustees, borne by beneficiaries		10,800
23/10/2014 GCT (23/10/2007) Removed from cumulative total	(362,500)	
GCT's in 7 years before death	310,000	

Nathan Chargeable Estate at death – 30 November, 2018

	£	£
Property	500,000	
Less: Mortgage	<u>(150,000)</u>	350,000
Quoted shares		120,000
Paintings		205,000
Cars		50,000
Building Society Accounts		36,000
Life insurance proceeds		105,000
Less: Debts (Note)	2,500	
Funeral expenses	<u>5,000</u>	(7,500)
Less: Exempt transfers		
Civil partner		<u>(100,000)</u>
		758,500
NRB available @ death (325,000 - 310,000)	15,000	
	<u>15,000 @ Nil</u>	Nil
Balance of Estate	743,500 @ 40%	<u>297,400</u>
	<u>758,500</u>	

The tax is payable by the Personal Representatives (Executors) and is borne by the residuary legatee (Nathan's nephew).

Note - legal fees of friend not allowable deduction as not legally enforceable debt and as the mortgage is not an endowment mortgage it is deducted from the value of the property.

No residence nil rate band available as main residence does not pass to a direct descendant

39 VAT

- (a) Traders become liable to register for VAT if at the end of any month the value of taxable supplies in the previous 12 months exceeds £85,000, or if the value of the taxable supplies to be made in the next 30 days will exceed £85,000.

Kite Ltd will therefore be liable to register for VAT from 28 February 2019 ($27,000 + 30,000 + 30,000 = 87,000$), and the trader must notify HMRC by 30 March 2019. Kite Ltd will be registered from 1 April 2019.

- (b) **VAT Return - Quarter ended 31 December 2018**

	£	£
Output VAT		
Sales $(240,000 \times 50\% \times 20\%) + (240,000 \times 50\% \times 95\% (100\% - 5\%) \times 20\%)$		46,800
Input VAT		
Purchases and expenses $(71,280 - 960 = 70,320 \times 20\%)$	14,064	
Irrecoverable debt $(4,000 \times 20\%)$	800	
Machinery $(42,300 \times 20/120)$	<u>7,050</u>	(21,914)
VAT payable 7 February 2019		<u>24,886</u>

Notes

- (1) The calculation of output VAT will only take into account the discount for prompt payment if customers take it.
- (2) Input VAT on entertaining UK customers cannot be reclaimed.
- (3) Relief for an irrecoverable debt is not given until six months from the time that payment is due.
- (4) Input VAT on motor cars not used wholly for business purposes cannot be reclaimed.

40 Geewizz Ltd

(a) The default surcharge

Geewizz Ltd's first VAT return for quarter to 30 June 2018 was due on 7 August 2018 but was submitted late, on 20 August 2018 so HMRC will have issued a surcharge liability notice specifying a surcharge period running to 30 June 2019.

Although the second and third returns were submitted by the due dates of 7 November 2018 and 7 February 2019 respectively, the VAT due was paid late in each case.

Surcharges of 2% and 5% will therefore have been charged. The surcharge period will have been extended to 31 December 2019.

If the return to 31 March 2019 is late, a surcharge at the rate of 10% will be imposed and the surcharge period will be extended to 31 March 2020.

(b) Cash accounting scheme

Geewizz Ltd can use the cash accounting scheme if:

- » its annual taxable turnover does not exceed £1,350,000
- » it is up to date with its VAT returns and VAT payments.

(c) The scheme will result in the tax point becoming the date that payment is received from customers. This should be advantageous where customers take extended credit periods since it delays the payment of output VAT until the cash is actually received.

It also provides for automatic bad debt relief should a customer not pay as if no cash is received no output tax will need to be paid. Input tax however may only be recovered if the payment has been made within the return period.

OR

(b) Annual accounting scheme

Geewizz Ltd can apply to use the annual accounting scheme if:

- » its annual taxable turnover does not exceed £1,350,000
- » it is up to date with VAT returns.

(c) Under the scheme only one VAT return is submitted each year, with nine monthly payments being made on account between month 4 and month 12 of the period, or quarterly payments on account. The payments are based on the VAT liability of the previous year, or in the case of a new business on an estimate of the VAT liability for the year. The balancing payment is due along with the VAT return two months after the end of the annual VAT period.

The scheme can be beneficial since there is less administration involved in only preparing one VAT return each year. There is also less chance of incurring a VAT penalty and cash budgeting is made easier.

41 Factor Limited

- (a) Selling to non EU customers – the VAT treatment is that sales to non EU customers are zero rated.
- (b) Selling to EU customers depends on the VAT status of the customer
 - » sales to VAT registered EU customer are zero rated
 - » sales to non VAT registered EU customer are standard rated (20%)
- (c) Purchases of goods from non EU suppliers involves the goods being charged UK VAT (20%) at the point of entry unless the UK customer has elected for the duty deferment scheme, whereby the associated VAT is paid within 30 days from the end of the month the goods entered the UK.
- (d) Purchases of goods from EU suppliers depends upon the VAT status of the EU supplier.
 - » VAT registered EU suppliers will zero rate the transaction and the UK customer will account for UK VAT on the value of the goods as output VAT on their own VAT return. This will be treated as input VAT in the same period, so recoverable, if the UK customer makes wholly taxable supplies
 - » Non VAT registered EU supplier will not charge VAT and so there are no VAT consequences for the UK customer.

42 Groups

- (a) Companies can form a VAT group if they are under common control and have a place of business in the UK.

The advantages and disadvantages of companies forming a VAT group are:

The advantages of group VAT registration are:

- » No VAT is accounted for on transactions between members of the VAT group
- » Only one VAT return is submitted for the group, by the representative member, therefore an administrative advantage.
- » The group can choose which companies to include or exclude. A cash flow advantage would be achieved by leaving out of the group VAT registration a company which makes zero rated supplies and is therefore submitting monthly VAT returns to get monthly repayments of VAT from HMRC.

The disadvantages of group VAT registration are:

- » The limits for cash and annual accounting will apply to the group as a whole and not on an individual company basis.
- » Joint and several liability of each company in the VAT group for VAT debts, not just the representative member who submits the VAT return.
- » Possible administration issues collecting information to be passed on to the representative member.

43 Jim

Payments on Account for 2018/19 will be based on the income tax payable by self assessment in 2017/18 (If Jim was self employed then any Class 4 NIC for 2017/18 would also be included in computing payments on account)

Due Dates

31 Jan 2019	$5,100 \frac{1}{2} = 2,550$
31 Jul 2019	$5,100 \frac{1}{2} = 2,550$
31 Jan 2020	Balancing payment

Income tax payable by self assessment	7,629
Less Payments on Accounts	(5,100)
	<u>2,529</u>
Plus CGT Liability	<u>1,000</u>
Balancing payment	<u>3,529</u>

The first payment on account for 2019/20 is based on income tax payable by self assessment in 2018/19 and is also due for payment on 31 January 2020

	31 Jan 2020	£7,629/2	= £3,814
Total due	31 Jan 2020	= £3,529 + £3,814	= £7,343

44 Enquiries

- (a) HM Revenue and Customs (HMRC) must normally give written notice within 12 months of the actual filing date.
- (b) HM Revenue and Customs can extend the above deadline by making a discovery assessment to prevent loss of tax. This may be done if the HMRC make a discovery which they could not reasonably have been expected to make from the information provided in the return. This assessment can be made up to 4 years from the end of the tax year, 6 years if the taxpayer has been careless and up to 20 years if the error is deliberate.
- (c) An enquiry is normally commenced due to:
 - » Under-declaration of income.
 - » Overstatement of deductions.
 - » Selection for a random review.
- (d) The taxpayer can either:
 - » Accept the HMRC's amendment to the return; or
 - » Request a review of the decision by a HMRC officer and/or
 - » Appeal to a tribunal within 30 days of notification of any additional tax due to the enquiry.

45 Cannock Limited

Corporation tax was due to be paid under the quarterly instalment payment system for the year ended 31 March 2019 as Cannock Ltd was large in the previous period, the year ended 31 March 2018 and was also large in the year ended 31 March 2019.

$$2,400,000 @ 19\% = \pounds 456,000$$

Each instalment is $25\% \times 456,000 = \pounds 114,000$

Due Dates for y/e 31 March 2019

	<u>£</u>
14 October 2018	114,000
14 January 2019	114,000
14 April 2019	114,000
14 July 2019	114,000

The return filing date is 31 March 2020.