

ACCA (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 2021/22

	<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	(12,570)			(12,570)
Taxable income	32,430	3,500	7,000	42,930
Income Tax				
Non Savings:				
(W1) (revised BRB limit = 40,200)	32,430 @ 20%			6,486
Savings (note 1)	500 @ 0%			0
	3,000 @ 20%			600
	—			
Dividends (note 2)	2,000 @ 0%			0
	2,270 @ 7.5%			170
	2,730 @ 32.5%			887
Income Tax liability				8,143
Less: tax deducted at source				
PAYE				(505)
Tax payable				7,638

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

$$37,700 + (2,000 \times 100\%) = 40,200$$

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 exists and counts towards the basic rate band limit. The remaining dividend income uses the remaining basic rate band and the balance falling in the higher rate band is taxed at 32.5%

3 Jessica

Jessica Income tax computation 2021/22

		<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)		(8,570)		(8,570)
Taxable income		81,430	20,000	101,430
Income Tax				
Non savings				
(W2)	39,700 @ 20% =	7,940		
	41,730 @ 40% =	16,692		
	81,430			
Savings (note 1)				
	500 @ 0%		0	
	19,500 @ 40%		7,800	
Income tax liability		32,432		
(W1) Total income = Net Income	110,000			
Less Gift aid payment 1,600 × 100/80 =	(2,000)			
Adjusted net income	108,000			
Personal allowance	12,570			
Less				
½ × (108,000 – 100,000) =	(4,000)			
Revised personal allowance	8,570			
(W2) 37,700 + 2,000 = 39,700				
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 2021/22

	<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

Income Tax

Non savings (W2)

$41,700 \times 20\% =$	8,340
$\underline{95,300} \times 40\% =$	38,120
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	56,288
Less tax deducted of source	
PAYE	(48,520)
Income tax payable	<u>7,768</u>

(W1) Adjusted Net income:

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

As Adjusted Net Income exceeds £125,140 the personal allowance is reduced to nil.

(W2) Basic rate band	$\pounds 37,700 + \pounds 4,000 = \pounds 41,700$
Higher rate band	$\pounds 150,000 + \pounds 4,000 = \pounds 154,000$

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 2021/22

	<i>Non savings £</i>	<i>Total £</i>
Property Income	35,000	35,000
Total Income	35,000	35,000
Less: Personal Allowance	(12,570)	(12,570)
Taxable income	22,430	22,430

Income Tax

22,430 @ 20% = 4,486

Less: Marriage allowance (1,260 x 20%) (note 1) (252)

Tax liability 4,234

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 £1,260 of her personal allowance to him which will result in a tax saving on his computation of £252.

The election must be made within 4 years of the end of the tax year, hence by 5 April 2026 and will only apply to the 2021/22 tax year.

If the election is then made during the 2022/23 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 even with the election in force it would be advised that the property should instead 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 2021/22 figures a tax saving of £2,250 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	(12,570)		(12,570)
Taxable income	4,930		4,930
Income Tax			
4,930 @ 20%	986	4,930 @ 20%	986
Tax liability	986		986
Combined liability	£1,972		
Original liability	£4,234		
Tax Saving	£2,262		

6 Michael**Michael Income tax computation 2021/22**

	<i>Non savings</i>
Employment income	<u>116,000</u>
Total income	116,000
Less Personal allowance (W1)	<u>(9,570)</u>
Taxable income	<u>106,430</u>
 Tax calculation	 <i>£</i>
Non savings	
47,700 (W2) @ 20%	9,540
<u>58,730 @ 40%</u>	<u>23,492</u>
106,430	
Income tax liability	<u>33,032</u>
 (W1)	
Net Income	116,000
Less: PPC (8,000 x 100/80)	(10,000)
Adjusted net income	106,000
 Personal allowance	12,570
Less $\frac{1}{2} \times (106,000 - 100,000)$	<u>(3,000)</u>
Revised Personal allowance	<u>9,570</u>

W2 The basic rate band is extended by the gross amount of the personal pension contributions paid (37,700 + 10,000 = 47,700)

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 2021/22		<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 2021/22 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	(3,500)

This is carried forward against future property income only.

Note

If the expenses on Cottage 1 included mortgage interest payable for 2021/22 of £5,000 none of the interest payable would be allowed as a deductible expense therefore reducing the expenses to £9,000 and creating a property income assessment of £1,500. A tax credit however of £1,000 ($5,000 \times 20\%$) would reduce the tax liability of Matthew for the tax year.

9 Charlie

Gross rents do not exceed £7500 ($52 \times 100 = £5,200$) and therefore rent a room relief is still available in 2021/22 so two possible tax treatments may apply:

(1) Normal calculation

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

(2) Alternative calculation

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

Charlie should withdraw the election for 2021/22 so he is allowed a loss of £900 to carry forward from 2021/22

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: ($£450 \times \frac{2}{5}$)	180	
		(9,930)
		26,020
Add back:		
Wages and salaries	0	
Rent and rates: $£12,900 \times \frac{1}{10}$	1,290	
Light and heat: $£5,250 \times \frac{1}{2}$	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: $£3,300 \times 4,000/12,000$ (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: $£450 \times \frac{130}{100}$	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 2022

	£	Main Pool £	Special Rate Pool £	Allowances £
WDV b/f		23,500		
Additions Qualifying for AIA				
Machinery	176,000			
Lorries	30,500			
	206,500			
AIA	(206,500)			206,500
Other additions				
Motor car > 50 g/km			16,600	
Disposals		(5,000)		
		18,500	16,600	
WDA @ 18%		(3,330)		3,330
WDA @ 6%			(996)	996
				210,826
WDV c/f		15,170	15,604	

Year ended 31 March 2023

WDV b/f		15,170	15,604	
Additions Qualifying for AIA				
Thermal insulation for business building	120,000			
AIA	(120,000)			120,000
Other Additions				
Motor car (< 51 g/km)		7,500		
Disposals			(12,000)	
		22,670	3,604	
WDA @ 18%		(4,081)		4,081
WDA @ 6%			(216)	216
				124,297
WDV c/f		18,589	3,388	

12 Jason

		£
2020/21: Actual		
1 July 2020 - 5 April 2021	$(\frac{9}{11} \times 33,000)$	<u>27,000</u>
2021/22: 1st 12 months (no CYB)		
1 July 2020 - 30 June 2021	$33,000 + (\frac{1}{12} \times 24,000)$	<u>35,000</u>
2022/23 (CYB)		
Year ended 31 May 2022		<u>24,000</u>
2023/24: (CYB)		
Year ended 31 May 2023		<u>36,000</u>
		£
Overlap profits	1 July 2020 - 5 April 2021	27,000
	1 June 2021 - 30 June 2021 $(\frac{1}{12} \times 24,000)$	<u>2,000</u>
		29,000

13 Stephen

				£
2016/17	Actual	1/2/2017 – 5/4/2017	$(30,000 \times \frac{2}{15})$	<u>4,000</u>
2017/18	Actual	6/4/2017 – 5/4/2018	$(30,000 \times \frac{12}{15})$	<u>24,000</u>
2018/19	12 months to accounting date ended in tax year	12m to 30/4/2018	$(30,000 \times \frac{12}{15})$	<u>24,000</u>
2019/20	CYB	Y/e 30/4/2019		<u>10,000</u>
2020/21	CYB	Y/e 30/4/2020		<u>12,000</u>
2021/22	CYB	Y/e 30/4/2021		<u>15,000</u>
2022/23	Remaining profits less overlap	Y/e 30/4/2022		18,000
		P/e 31/10/2022		<u>7,000</u>
		Less: Overlap		25,000
		1/5/2017 – 5/4/2018	$(\frac{11}{15} \times 30,000)$	<u>(22,000)</u>
				3,000

14 Grace

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

Period to 31 July 2022

	£	Main Pool	Allowances
	£	£	£
Additions qualifying for AIA			
Plant 1/5/2021	69,500		
AIA (max 15/12 x £1M)	69,500		69,500
Other Additions - Car (< 51 g/km) 1/12/2021		21,600	
WDA (18% x 15/12 x 21,600)		(4,860)	4,860
			<u>74,360</u>
WDV c/f		16,740	

Accounting Year ended 31 July 2023

WDV b/f		16,740	
Additions qualifying for AIA			
Plant 1/10/2022	40,000		
AIA	(40,000)	-	40,000
	-		
WDA @ 18%		(3,013)	3,013
			<u>43,013</u>
WDV c/f		13,727	

Accounting Year ended 31 July 2024

WDV b/f		13,727	
Additions qualifying for AIA			
Plant 1/2/2024	25,000		
AIA	(25,000)		25,000
Disposal		(13,000)	
		727	
Small Pool WDA		(727)	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
1/5/2021 - 31/7/2022	£(128,360 – 74,360)	54,000
1/8/2022 - 31/7/2023	£(88,013 – 43,013)	45,000
1/8/2023 - 31/7/2024	£(75,727 – 25,727)	50,000

The assessments are as follows.

Year	Basis of Assessment	Basis period	Working	Assessment
2021/22	Actual	1/5/2021 - 5/4/2022	£54,000 × $\frac{11}{15}$	39,600
2022/23	12 months to accounting date ended in tax year	1/8/2021 - 31/7/2022	£54,000 × $\frac{12}{15}$	43,200
2023/24	CYB	A/C y/e 31/7/2023		45,000
2024/25	CYB	A/C y/e 31/7/2024		50,000

Overlap profits are those from 1/8/2021 – 5/4/2022 ie: $\frac{8}{15} \times £54,000 = £28,800$

15 David

Capital allowances for each accounting period:

Year ended 5 April 2022

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

Year ended 5 April 2023

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

Period to 30 June 2023

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

Profits for periods of account:

<i>Period of account</i>	<i>Working</i>	<i>Trading profit</i>
		£
6/4/2021 - 5/4/2022	(25,000 – 5,464)	19,536
6/4/2022 - 5/4/2023	(27,000 – 6,784)	20,216
6/4/2023 - 30/06/2023	(14,000 – 5,952)	8,048

	<i>Trading profit Assessments</i>	£	£
2021/22	CYB (y/e 5/4/2022)		19,536
2022/23	CYB (y/e 5/4/2023)		20,216
2023/24	6/4/2023 - 30/6/2023	8,048	
	Less overlap profit	(2,000)	6,048

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

	<i>Trading profit assessments</i> £	<i>Trading loss</i> £
2020/21 (Actual) (1/1/2021 - 5/4/2021)		
3/12 × (12,000) (loss)	Nil	3,000
2021/22 (CYB) (y/e 31/12/2021) (loss)		
(12,000-3,000 (used in 2020/21)	Nil	9,000
2022/23 (CYB)		
Y/e 31/12/2022 (loss)	Nil	<u>4,000</u>
		16,000
2023/24 (CYB)		
Y/e 31/12/2023	8,000	
Less: brought forward loss	<u>(8,000)</u>	(8,000)
	<u>Nil</u>	
2024/25 (CYB)		
Y/e 31/12/2024	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

2020/21 loss of £3,000	This can be relieved against total income of 2017/18, 2018/19, 2019/20 in that order.
2021/22 loss of £9,000	This can be relieved against total income of 2018/19, 2019/20, 2020/21 in that order.
2022/23 loss of £4,000	This can be relieved against total income of 2019/20, 2020/21, 2021/22 in that order.

The revised net income for 2017/18 to 2020/21 is as follows:

	£	£
Loss sustained in 2020/21		3,000
2017/18		
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 2021/22		9,000
2018/19		
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 2022/23		4,000
2019/20		
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

	£
2019/20	
y/e 31 Dec 2019	60,000
2020/21	
y/e 31 Dec 2020	30,000
2021/22	
y/e 31 Dec 2021	40,000
2022/23	
y/e 31 Dec 2022	NIL (loss of £60,000)

Income Tax Computations

	2019/20	2020/21	2021/22	2022/23
	£	£	£	£
Trading profit	60,000	30,000	40,000	NIL
Property Income	<u>6,000</u>	<u>6,000</u>	<u>6,000</u>	<u>6,000</u>
Total Income	66,000	36,000	46,000	6,000
Current year (no claim)				(–)
Carryback			(46,000)	
Net income	<u>66,000</u>	<u>36,000</u>	<u>Nil</u>	<u>6,000</u>
Personal Allowance	<u>(12,570)</u>	<u>(12,570)</u>	<u>(12,570)</u>	<u>(12,570)</u>
Taxable income	53,430	23,430	Nil	Nil

Loss memo:

	£
Trading loss 2022/23	60,000
Carryback 2021/22	<u>(46,000)</u>
Trading loss available to carry forward	14,000

A current year offset could be chosen but this would waste the Personal allowance of 2022/23 without achieving any tax saving. The carry back against total income in 2021/22 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 2022 terminal loss relief would be available allowing the trading loss of the last 12 months of trading 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 2021/22 and then to 2020/21 and if loss still remains to 2019/20.

Terminal loss relief as stated 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.

(b)	<i>Total</i>	<i>Anne</i>	<i>Betty</i>	<i>Chloe</i>
A/C year ended 31/12/2021	<u>60,000</u>			
1/1/2021 – 30/6/2021				
(6/12 x 60,000) PSR1:1	30,000	15,000	15,000	
1/7/2021 – 31/12/2021				
(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 31/12/2022	<u>72,000</u>			
PSR 2:1		<u>48,000</u>		<u>24,000</u>

Assessments

£

Anne

2021/22 (CYB)

A/C year ended 31/12/2021

35,000

2022/23 (CYB)

A/C year ended 31/12/2022

48,000

Betty (note 1)

2021/22

6 months to 30/6/2021

15,000

Less: Overlap relief

(3,000) 12,000

Chloe (note 2)

2021/22 (Actual)

(1/7/2021 – 5/4/2022)

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

16,000

2022/23 (CYB)

A/C year ended 31/12/2021

24,000

Note 1 Betty

Betty ceased trading on 30/6/2021 so her final tax year of assessment is 2021/22 in which she will be assessed on all remaining profit as yet not assessed less her overlap relief. Therefore in the preceding tax year, 2020/21 she would have been assessed on her normal CYB i.e. on her share of the profit of the accounting year ended 31/12/2020. The only remaining profit to be assessed is therefore for her final 6 months of trading to 30/6/2021 which is then reduced by the available overlap relief.

Note 2 Chloe

Chloe commenced trading on 1 July 2021 so her first tax year of assessment is 2021/22 in which an actual basis applies. She is able to use CYB from 2022/23 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 2021/22 and/or 2020/21
 (3) Frank can claim against total income for 2018/19, 2019/20 and 2020/21. (Special opening year loss relief)
 (4) Elvis can claim against trading profit for 2020/21, 2019/20 and 2018/19. (Terminal loss relief)

19 Renner

Income tax computation - 2021/22

	<i>Non-savings £</i>	<i>Dividends £</i>	<i>Total £</i>
Employment income (W1)	55,639		55,639
Dividend income (20,000 × 40p)		8,000	8,000
Total Income	55,639	8,000	63,639
Less PA	(12,570)		(12,570)
Taxable income	43,069	8,000	51,069

	<i>£</i>	<i>£</i>
Income tax		
Basic rate: Non savings	37,700 @ 20%	7,540
Higher rate: Non-savings	5,369 @ 40%	2,148
Dividends	2,000 @ 0%	0
	6,000 @ 32.5%	1,950
Income tax liability		11,638

Workings

(W1) Employment income

	<i>£</i>
Salary	
($\frac{9}{12} \times £28,500$)	19,000
($\frac{4}{12} \times £33,000$)	11,000
	30,000
Bonus (February 2022)	4,200
Benefits (W2)	22,339
	56,539
Less: Occupational pension contributions (3% × £30,000)	(900)
Employment income	55,639

(W2) Benefits

	£	£
(a) Use of yacht (Two weeks use only)		
Annual value		
$20\% \times (\text{MV when first made available to any employee})$		
$(20\% \times £42,000 \times 2/52)$	323	
Running expenses $(£6,000 \times 2/52)$	231	
		554
(b) Private medical insurance - Cost to employer		270
(c) Subsidised canteen - Exempt benefit		-
(e) Car scale charges		
Pool car - exempt benefit		-
Mini (W3)		8,745
Fuel charge (petrol)		
Mini (W3)		8,118
(f) Employer's contribution into pension - Exempt benefit		-
(g) Beneficial loan $£20,000 \times (2\% - 1.75\%)$		50
(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		
$[(£138,000 - £75,000) \times 2\% \times \frac{1}{12}]$	1,050	
Council tax	550	
Electricity	260	
Telephone	110	
Cleaning	130	
Use of furniture $(20\% \times £7,200 \times 10/12)$	1,200	
		4,200
Total assessable benefits		22,339

(W3) Mini - Car and fuel benefits

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

Petrol engine

Appropriate percentage = $15\% + ((145 - 55) \div 5 = 18\%)$

= 33%

Car benefit $(33\% \times £26,500)$	£8,745
Fuel benefit $(33\% \times £24,600)$	£8,118

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 2021/22 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 2021/22 he will now be able to use any unused allowance brought forward from the previous 3 years on a FIFO basis i.e. 2018/19, 2019/20 and 2020/21.

As George was not a member of a pension scheme in 2018/19 no unused allowance will be available to carry forward from this year. £12,000 of unused allowance ($40,000 - 28,000$) is available from 2019/20 and will now be fully utilised, followed by £8,000 of the £17,000 ($40,000 - 23,000$) unused allowance from 2020/21.

Tax relief will therefore be available on the full contribution of £60,000 (gross) made in 2021/22 and George will have £9,000 ($17,000 - 8,000$) of unused allowance from 2020/21 to carry forward to 2022/23 which will permit a maximum allowable gross contribution of £49,000 to be made in 2022/23.

- (b) **Osbourne – Income Tax Computation 2021/22**

	£		
Employment Income	170,000		
Personal Allowance (note 1)	(12,570)		
Taxable Income	<u>157,430</u>		
Income Tax Liability			
	127,700 (note 2)	@ 20%	25,540
	30,000	@ 40%	12,000
AA Charge (note 3)	20,000	@ 40%	<u>8,000</u>
			45,540

The basic and higher rate bands are extended by the gross amount of personal pension contributions ($37,700 + 90,000$) = 127,700 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 full annual allowance for both 2021/22 and 2020/21 and therefore has £30,000 ($40,000 - 10,000$) brought forward unused allowance from 2020/21. There is no unused AA brought forward from earlier years. Therefore in 2021/22 an Annual Allowance Charge will arise of £20,000 ($90,000 - 70,000$) which is taxed at a marginal rate of 40%. as the £20,000 AA charge all falls within the extended higher rate band limit.

21 Tony

(a) Class 1 NICs

Employees

Jack	$(18,200 - 9,568) \times 12\% =$	1,036
Jill	$(12,480 - 9,568) \times 12\% =$	349

Employer's

Jack	$(18,200 - 8,840) \times 13.8\% =$	1,292
Jill	$(12,480 - 8,840) \times 13.8\% =$	502
		<u>1,794</u>
Less: Employment allowance		<u>(4,000)</u>
		Nil
Total Class 1 NIC		<u>1,385</u>

(b) Class 2 NICs

$52 \times £3.05$ 159

Class 4 NICs

$(18,479 - 9,568) \times 9\%$ 802

22 Chorley Ltd

Adjustment of Trading Profit - Year ended 31 December 2021

	£
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	<u>9,763</u>

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 and as expenditure incurred pre 1 April 2021 no SBA claim will be available.
- (4) The expenditure on the Christmas lunch is allowable for the employer.

23 Sail Ltd

Corporation tax computation for the year ended 31 March 2022

	£
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
'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 "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 2023.

24 Swish Ltd

(a) Computation of Trading loss for the year ended 31 March 2022

	£	£
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	
	2021	2022
	£	£
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 31/3/22 (part (a))	108,100
Less: Current Year relief y/e 31/3/22	(48,000)
Carry back relief y/e 31/3/21	(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:

	£
Sale proceeds	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
Index to February 1996	$0.048 \times 10,000$			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
Index to October 1998	$0.090 \times 16,480$			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
Index to December 2017	$0.703 \times 24,713$			17,373
		3,000	22,750	42,086
Sale October 2021		(1,500)	(11,375)	(21,043)

Calculate the gain

	£
Sale proceeds	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

	£
Sale Proceeds	4,500
Cost	<u>(900)</u>
Unindexed gain	3,600
Indexation allowance 900 x 1.194	<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
Less indexation allowance	$0.875 \times 2,000$	<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
Indexation allowance $100,000 \times 0.338$	(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 2021/22 Capital Gains Tax

	£
Capital Gain	31,000
Capital Gain	24,000
Capital Loss	(7,000)
Net Capital gains arising in 2021/22	48,000
Less: AEA	(12,300)
	35,700
Less: Capital losses b/f	(10,000)
Taxable Gains	25,700
Capital Gains Tax payable $£25,700 \times 20\%$	<u>£5,140</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 2023

30 Cheryl

	£
Chargeable Gain	40,300
Less: AEA	(12,300)
Taxable gains	28,000
Capital Gains Tax (W1)	£4,750
Due	31/1/2023

(W1) Basic rate band remaining

$$£37,700 + (£1,600 \times 100/80) = £39,700 - £31,000 = £8,500$$

	£
$8,700 \times 10\% =$	870
$\underline{19,300} \times 20\% =$	<u>3,860</u>
28,000	4,730

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 2022.

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 2022.

	£
Proceeds	50,000
Less cost $124,000 \times \frac{50,000}{50,000 + 160,000}$	<u>(29,524)</u>
Gain	20,476

On subsequent sale of the restored asset

Original cost (124,000 – 29,524)	=	94,476	Oct 2020
Restoration	=	<u>60,000</u>	Feb 2022
Base cost		154,476	

32 Zoe

Apply matching rules

i) same day	X		
ii) Next 30 days	✓	10/2/2022	200 shares
Calculate 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>
30/4/2021 Acquisition	1,500	18,000
31/5/2021 Acquisition	<u>500</u>	<u>7,000</u>
	2,000	25,000
31/1/2022 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	<u>(10,000)</u>
Capital Gain	<u>6,000</u>

Summary

Next 30 days	400
Share Pool	<u>6,000</u>
Total Capital Gains	<u>6,400</u>

33 Michael

Apply matching rules

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

	<i>Number</i>	<i>Cost</i>
January 2021	2,700	5,400
May 2021	600	1,500
June 2021 Rights issue 1:3 @ £2:30	<u>1,100</u>	<u>2,530</u>
	4,400	9,430
Disposal August 2021	<u>(4,000)</u>	<u>(8,573)</u>
	400	857

Calculate the Gain

Proceeds	14,000
Less cost	<u>(8,573)</u>
Capital Gain	<u>5,427</u>

34 Jenny

Gains not qualifying for Business Asset Disposal Relief

	£
Investment commercial property	80,000
Less AEA)	(12,300)
	<u>67,700</u>
Less Capital loss b/f (note 2)	(15,000)
	<u>52,700</u>
CGT @ 20% (note 1)	£10,540

Gains qualifying for Business Asset Disposal Relief

	£
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% (note 3)	£44,500

Total CGT £44,500 + £10,540 = **£55,040** Due 31 January 2023

Note:

- (1) Jenny's taxable income is below the basic rate band but the gains qualifying for Business Asset Disposal Relief effectively use up the remaining basic rate band such that gains not qualifying for relief are taxed at 20%
- (2) The AEA and the capital loss brought forward are used in priority against those gains taxed at the highest tax rate.
- (3) The business has been owned for at least 2 years and the shares have been owned for more than 2 years and for which period Jenny has been an employee. These disposals therefore qualify for Business Asset Disposal Relief.
- (4) The remaining gains eligible for relief in future years are $(1,000,000 - 445,000) = £555,000$

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		(65,000)
Base cost of new factory		<u>635,000</u>

Business Asset Disposal 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 2024 (within 3 years of disposal date) then claims for rollover relief against those assets may become available

As above Business Asset Disposal Relief is not available.

36 Wendy

(a) Wendy - Capital gain on shares sold in January 2022

	£	£
Market value of shares in January 2022		165,000
Less: cost		<u>(40,000)</u>
		125,000
Less: Gain deferred with gift holdover 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 holdover 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 holdover relief

(b) Wendy's grandson - Base cost

	£
Market value of shares, January 2022	165,000
Less: Gain deferred	<u>(95,000)</u>
Base cost	70,000

37 Amy

Proceeds	400,000
Less cost	<u>(190,000)</u>
Gain	210,000
Less PRR (W1)	<u>(105,335)</u>
Chargeable Gain	104,665

(W1)	Exempt	Chargeable	Total
1/4/95 – 31/3/96 Occupation	12m		12m
1/4/96 – 30/9/00 3 years any reason	36m	18m	54m
1/10/00 – 31/3/04 Occupation	42m		42m
1/4/04 – 30/6/16 Working in UK	<u>48m</u>	<u>99m</u>	<u>147m</u>
1/7/16 - 30/4/17 Occupation	<u>10m</u>		<u>10m</u>
1/5/17 - 1/5/21 Last 9 months	<u>9m</u>	39m	<u>48m</u>
	157m	144m	313m

$$\text{PRR } 210,000 \times \frac{157}{313} = 105,335$$

38 Nathan**(a) Chargeable transfers**

	23/10/2009 CLT	17/09/2015 PET	26/08/2016 CLT
Transfer of value	356,000	47,000	273,000
Less: Exemptions:			
AE 2009/10	(3,000)		
AE 2008/09	(3,000)		
Marriage exemption		(1,000)	
AE 2015/16		(3,000)	
AE 2014/15		(3,000)	
AE 2016/17			(3,000)
Chargeable Transfer	<u>350,000</u>	40,000	270,000
Note: Transfer to civil partner on 14/02/2016 is exempt			

Computation of IHT on lifetime transfers chargeable when made

	£	Gross	IHT
23/10/2009 CLT	<u>350,000</u>	356,250	6,250
325,000 @ NRB = nil			
25,000 @ 25% = 6,250			
Tax paid by Nathan due 30/04/2010			
26/08/2016 CLT	270,000	<u>270,000</u>	<u>54,000</u>
NRB of £325,000 deemed used by Gross Chargeable Transfers(GCT's) in previous 7 years		626,250	
∴ 270,000 @ 20%			

Tax paid by trustees due 30/04/2017

If the transfer into trust had been delayed until after 23/10/2016 then the CLT made on 23/10/2009 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, 2021

	Gross	IHT
GCT's in 7 years before 17/09/2015	356,250	–
17/09/2015 PET	<u>40,000</u>	16,000
∴ All £325,000 NRB deemed used = 40,000 @ 40%	396,250	
Less: Taper relief (80%)		<u>(12,800)</u>
Tax payable and borne by donee (nephew)		<u>3,200</u>
26/08/2016 CLT	<u>270,000</u>	108,000
GCT's in previous 7 years exceed NRB	666,250	
∴ 270,000 @ 40%		
Less: Taper relief (60%)		(64,800)
Lifetime Tax Paid		<u>(54,000)</u>
Additional Tax Due on Death		nil
23/10/2016 GCT (23/10/2008) Removed from cumulative total	<u>(356,250)</u>	
GCT's in 7 years before death	310,000	

Nathan Chargeable Estate at death – 30 November, 2021

	£	£
Property	500,000	
Less: Mortgage (Note)	<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>
		<u>758,500</u>
NRB available @ death (325,000 - 310,000)	15,000	
	<u>15,000 @ Nil</u>	Nil
Balance of Estate	<u>743,500 @ 40%</u>	<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 2022 ($27,000 + 30,000 + 30,000 = 87,000$), and the trader must notify HMRC by 30 March 2022. Kite Ltd will be registered from 1 April 2022.

- (b) **VAT Return - Quarter ended 31 December 2021**

	£	£
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 2022		<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 2021 was due on 7 August 2021 but was submitted late, on 20 August 2021 so HMRC will have issued a surcharge liability notice specifying a surcharge period running to 30 June 2022.

Although the second and third returns were submitted by the due dates of 7 November 2021 and 7 February 2022 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 2022.

If the return to 31 March 2022 is late, a surcharge at the rate of 10% will be imposed and the surcharge period will be extended to 31 March 2023.

(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 after 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 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.

42 Jim

Payments on Account for 2021/22 will be based on the income tax payable by self assessment in 2020/21 (If Jim was self employed then any Class 4 NIC for 2020/21 would also be included in computing payments on account)

Due Dates

31 Jan 2022	$5,100 \frac{1}{2} = 2,550$
31 Jul 2022	$5,100 \frac{1}{2} = 2,550$
31 Jan 2023	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 2022/23 is based on income tax payable by self assessment in 2021/22 and is also due for payment on 31 January 2023

	31 Jan 2023	$\pounds 7,629/2$	$= \pounds 3,814$
Total due	31 Jan 2023	$= \pounds 3,529 + \pounds 3,814$	$= \pounds 7,343$

43 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.

44 Cannock Limited

Corporation tax was due to be paid under the quarterly instalment payment system for the year ended 31 March 2022 as Cannock Ltd was large in the previous period, the year ended 31 March 2021 and was also large in the year ended 31 March 2022.

	£
2,400,000 @ 19% =	456,000

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

Due Dates for y/e 31 March 2022

	£
14 October 2021	114,000
14 January 2022	114,000
14 April 2022	114,000
14 July 2022	114,000

The return filing date is 31 March 2023.