
Answers

		<i>Marks</i>
1	(a)	
		Pay and Payne Winchester Tel: 01962 888889
1 March 2005		
Reference: XXXX		
Newco Ltd Winchester		
Dear Sir		
PAYE PROCEDURES		
Thank you for your recent letter asking for assistance with the PAYE end of year procedure rules.		
The Revenue requires the following forms to be completed and submitted by the dates indicated.		
A form P14 must be completed for each employee showing the amount of pay, tax and national insurance for the year. This is to be completed in triplicate with two copies going to the Revenue and one being given to the employee. The employee copy is called a form P60. These forms must be submitted to the Revenue by 19 May and to the employee by 31 May after the year end.		3
A form P35 must be submitted at the same time as the forms P14. A form P35 is simply a list of all of the forms P14.		1
Finally if benefits have been given to any employee then either a form P9D for those earning less than £8,500 or a form P11D for those earning £8,500 or more in a year must be completed for each employee showing the value of those benefits given. These forms are completed in duplicate with one copy going to the Revenue and the other to the employee – both by 6 July following the year end.		2
If I can be of further assistance please do not hesitate to contact me on the above number.		
Yours faithfully H Knowles Tax Technician		
		Presentation
		<u>2</u>
		<u>8</u>

(b)		Sami Jenkins – Benefits 2004–05		£	
Loan					
Average method:					
$\frac{£25,000 + £15,000}{2} = £20,000$					
$£20,000 \times (5\% - 2\%) \times 10/12 =$				<u>£500</u>	1.5
Strict statutory method					
$£25,000 \times (5\% - 2\%) \times 6/12 =$				375	
$£15,000 \times (5\% - 2\%) \times 4/12 =$				<u>150</u>	2
The Revenue will take the higher strict method				525	0.5
Pension contributions					
Exempt – tax free benefit					1
Relocation costs					
				£	
Amount received				9,500	0.5
Exempt limit				<u>(8,000)</u>	1
Medical insurance					
Cost to the employer				560	1
Workplace parking					
Exempt – tax free benefit					1
				Total benefits	<u>£2,585</u>
					<u>9</u>

(c)		Jenny Smith – Income tax payable 2004–05				
		Total £	Non-savings income £	Savings income £	Dividend £	
Salary						
$£32,700 \times 8/12$		21,800				
$£32,700 \times 1.04 \times 3/12$		<u>8,502</u>	30,302			2
Bonus		2,000				1
Benefits		<u>2,400</u>				0.5
Employment income		34,702	34,702			
Dividend						
$£1,800 \times 100/90$		2,000			2,000	1
Bank interest						
$£480 \times 100/80$		600		600		1
Premium bond prizes (exempt – tax free)						1
Schedule A rent (see working)		<u>1,658</u>	<u>1,658</u>			6
Statutory total income		38,960	36,360	600	2,000	
Personal allowance		<u>(4,745)</u>	<u>(4,745)</u>			0.5
Taxable income		<u>£34,215</u>	<u>£31,615</u>	<u>£600</u>	<u>£2,000</u>	

			Marks
Extension of basic rate band: £31,400 + (£234 x 100/78) = £31,700			1
Tax payable	£	£	
1st	2,020 x 10%	202	0·5
Next	29,595 x 22%	6,511	0·5
	<u>31,615</u>		
Savings	85 x 20%	17	0·5
	515 x 40%	206	0·5
Dividend	2,000 x 32·5%	650	0·5
Tax liability		<u>7,586</u>	
Tax paid at source			
Dividend credit – 10%		(200)	0·5
Interest credit — 20%		(120)	0·5
PAYE		<u>(5,820)</u>	0·5
Tax payable		<u>£1,446</u>	
			<u>18</u>
Working – Schedule A rent			
Rent received £400 x 9	3,600		1
Water rates £240 x 9/12	(180)		1
Repairs	(640)		0·5
Insurance £360 x 9/12	(270)		1
Agents fees	(510)		0·5
New units (capital)	–		0·5
Wear and tear allowance (£3,600 – £180) x 10%	(342)		1·5
	<u>£1,658</u>		<u>6</u>
			Total <u>35</u>

2 (a)

Red Ltd – Capital allowances for the year ended 31 March 2005

	FYA £	General pool £	Expensive car (1) £	Expensive car (2) £	Capital allowances £	
Balances brought forward		46,000	8,000			
Purchases						
Plant – November 2003	8,000					0.5
Plant – May 2004	18,000					0.5
Car – June 2004				20,000		0.5
Car – July 2004		11,000				1
Disposals						
Plant – March 2004		(7,000)				1
Car – July 2004		(4,000)				1
Car – August 2004			(3,000)			0.5
		<u>46,000</u>	<u>5,000</u>	<u>20,000</u>		
Balancing allowance			(5,000)		5,000	1
WDA – 25%		(11,500)			11,500	1
WDA – restricted				(3,000)	3,000	1
FYA						
£8,000 x 40%	(3,200)				3,200	1
£18,000 x 50%	(9,000)				9,000	1
Transfer to pool	(13,800)	13,800				
Balances carried forward		<u>£48,300</u>	<u>Nil</u>	<u>£17,000</u>		10
Total allowances					<u>£31,700</u>	

Tutorial note: Private use is ignored when calculating capital allowances for a company.

(b)

Blue Ltd – Loss relief

(i)	Year to				
	31 December 2001 £	9 months to 30 September 2002 £	Year to 30 September 2003 £	Year to 30 September 2004 £	
Schedule D Case I	70,000	80,000		40,000	1
Loss carried forward (s.393(1))				(40,000)	1
Schedule A	12,000	9,000	12,000	12,000	1
Chargeable gain		<u>10,000</u>			0.5
		82,000	99,000	12,000	
Current year loss (s393A(1))			(12,000)		1
Loss carried back (s.393A(1))	(20,500)	(99,000)			2.5
Gift aid	(2,000)			(2,000)	1
Profits chargeable to corporation tax	<u>£59,500</u>	<u>Nil</u>	<u>Nil</u>	<u>£10,000</u>	8
(ii) Unrelieved charges		£2,000	£2,000		1
Loss memo	£				
	180,000				
September 2003	(12,000)				
September 2002	(99,000)				
December 2001	(20,500)	(£82,000 x 3/12)			
September 2004	<u>(40,000)</u>				
Carried forward	<u>£8,500</u>				<u>1</u>

2

	Green Ltd – Corporation tax year ended 31 March 2005		Marks
	£	£	
Schedule D Case I		980,000	0.5
Schedule D Case III			
Debenture interest	10,000		1
Bank interest	<u>(3,000)</u>	7,000	0.5
Chargeable gain		<u>85,000</u>	0.5
		1,072,000	
Charge on income			
Gift aid payment		<u>(4,000)</u>	0.5
Profits chargeable to corporation tax		1,068,000	
Franked investment income (FII)			
£27,000 x 100/90		<u>30,000</u>	1
Profits		<u>£1,098,000</u>	
Upper limit: £1,500,000/2 (associated companies) = £750,000			1
Tax payable:			
£1,068,000 x 30%		<u>£320,400</u>	1
			<u>6</u>
			Total 26

3 (a) Nigel Hawksworth – Chargeable gains for 2004–05

Vase			
Exempt – proceeds and cost < £6,000			1
House			
		£	
Proceeds		240,000	
Indexed cost		<u>(140,000)</u>	
		£100,000	1
Taper relief – 6 years + 1 bonus = 75%			
£100,000 x 75% =		<u>£75,000</u>	1
Shares			
Disposals are deemed to occur on a LIFO basis, thus:			
	Shares	Cost	
		£	
August 2003	2,000	3,600	
1 for 2 rights issue	<u>1,000</u>	<u>2,200</u>	1
	3,000	5,800	
Disposal	<u>(3,000)</u>	<u>(5,800)</u>	1
	nil	nil	
May 2002	1,000	1,600	
1 for 2 rights issue	<u>500</u>	<u>1,100</u>	1
	1,500	2,700	
Disposal	<u>(500)</u>	<u>(900)</u>	1
	<u>1,000</u>	<u>£1,800</u>	

Gains			
Proceeds (3,000/3,500 x £9,800)		£	
		8,400	
Cost		(5,800)	
		<u>£2,600</u>	1
Proceeds (500/3,500 x £9,800)		1,400	
Cost		(900)	
		<u>£500</u>	1
No taper relief for either disposal			0.5
Total gains		<u>£78,100</u>	<u>0.5</u>
			<u>10</u>

(b) John Hawksworth – Capital gains tax for 2004–05

	Gain 1	Gain 2	Gain 3	Total	
Taper %	85%	25%	90%		
	£	£	£	£	
Gain	12,000	14,000	3,000		
Loss*	(2,000)		(3,000)		2
	<u>10,000</u>	<u>14,000</u>	<u>Nil</u>		
Tapered gain	8,500	3,500		12,000	2
Annual exemption				(8,200)	1
Chargeable gains				<u>£3,800</u>	
*Use against gains with the least taper relief first					
Tax payable:					
		£			
(£31,400 – £28,500) = £2,900 x 20%		580			1
£900 x 40%		360			1
		<u>£940</u>			<u>7</u>

(c) Pamela Hawksworth – Chargeable gain for 2004–05

	£	
(i) Proceeds	80,000	
Cost	(42,000)	
	<u>38,000</u>	1
Chargeable now (amount not reinvested)	(8,000)	1
Rolled over	<u>£30,000</u>	1
Taper relief – 5 years = 25% £8,000 x 25% =	<u>£2,000</u>	1
(ii) Cost of new factory	72,000	
Rolled over	(30,000)	
Base cost	<u>£42,000</u>	1
		<u>5</u>
Total		<u>22</u>

		Imogen Tombay – VAT for the quarter ended 31 October 2004		Marks
		£	£	
Output tax:				
Sales £98,000 x 95% x 17.5%			16,293	1.5
Input tax:				
Purchases £42,000 x 17.5%	7,350			1
Electricity £1,100 x 7/47	164			1
Accounting fees £500 x 7/47	74			1
Computer expenses £140 x 7/47	21			1
Bad debt £300 x 17.5%	53		(7,662)	1
			<u>£8,631</u>	0.5
VAT payable				
Due date of return: 30 November 2004				<u>1</u>
				8

Notes:

1. Full discount is always taken into account
2. The bad debt of £400 is not 6 months old

	Freda Tombay – Adjusted Schedule D Case I profit		
	£	£	
Net profit per accounts		195,100	0.5
Deduct interest received		(7,500)	0.5
Add back:			
Wages for son (note 1)	7,720		1
Electricity (£2,400 x 20%)	480		1
Insurance (£540 x 20%)	108		1
Computer expenses (£860 x 25%)	215		1
Drawings	34,500	43,023	0.5
		<u>230,623</u>	
Less capital allowances		(2,500)	0.5
		<u>£228,123</u>	6

Note 1:

Wages allowed are £15 x 52 weeks = £780

Therefore disallowed amount to be added back: £8,500 – £780 = £7,720

	Sebastian Tombay – Final years of assessments		
2003–04 Current year basis – Year ended 31 October 2003		<u>£12,000</u>	1
2004–05 Balance to date			
(£8,000 + £3,000)	11,000		1
Overlap profits	(6,000)	<u>£5,000</u>	1
			<u>3</u>
		Total	17