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Ireland

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# NEW SYLLABUS

**2<sup>nd</sup> Year Examination Summer 2009**

## **TAXATION II (Northern Ireland)**

**PAPER, SOLUTIONS  
and  
EXAMINER'S REPORT**

## **NOTES TO USERS ABOUT THESE SOLUTIONS**

The solutions in this document are published by Accounting Technicians Ireland. They are intended to provide guidance to students and their teachers regarding possible answers to questions in our examinations.

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There are often many possible approaches to the solution of questions in professional examinations. It should not be assumed that the approach adopted in these solutions is the ideal or the one preferred by us.

This publication is intended to serve as an educational aid. For this reason, the published solutions will often be significantly longer than would be expected of a candidate in an examination. This will be particularly the case where discursive answers are involved.

The solutions are relevant to the tax rates in the year the Examination was sat. A copy of the tax rates is enclosed with the solutions.

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# NEW SYLLABUS

**2<sup>nd</sup> Year Examination : Summer 2009**

## **PAPER : TAXATION II (Northern Ireland)**

Tuesday 19<sup>th</sup> May 2009 – 2.30 p.m. to 5.30 p.m.

### **INSTRUCTIONS TO CANDIDATES**

#### **PLEASE READ CAREFULLY**

**For candidates answering in accordance with the law and practice of Northern Ireland.**

**Candidates should answer the paper in accordance with the appropriate provisions up to and including the Finance Act, 2008. The provisions of the Finance Act, 2009 should be ignored.**

**Allowances and rates of taxation, to be used by candidates, are set out in a separate booklet supplied with the examination paper.**

**Answer ALL THREE QUESTIONS in Section A, and ANY TWO of the FOUR questions in Section B. If more than TWO questions are answered in Section B, then only the first two questions, in the order filed, will be corrected.**

**Candidates should allocate their time carefully.**

**All workings should be shown.**

**All figures should be labelled as appropriate e.g. £s, units, etc.**

**Answers should be illustrated with examples, where appropriate.**

**Question 1 begins on Page 2 overleaf.**

**The following inserts are enclosed with this paper:**

- Multiple Choice Answer Sheet (QUESTION 5)
- Tax Reference Material. (NI)

SECTION A

Answer QUESTION 1 and QUESTION 2 and QUESTION 3 (Compulsory) in this Section

QUESTION 1 (Compulsory)

Roberto Torres is aged 48 and is a UK resident who has been married to his wife Alex for a number of years. During the tax year ended 5<sup>th</sup> April 2009 details of Roberto's Income tax position was as follows:

- (a) Roberto holds a number of rental properties in Northern Ireland. His rental position in respect of these properties for the tax year was as follows:

	Notes	£	£
Rental Income .....	(1)		118,975
Less Expenses .....			
Service charges .....		8,650	
Rates .....	(2)	6,682	
Insurance .....		2,573	
Repairs .....	(3)	11,133	
Letting fees .....		2,600	
Bank loan interest .....		14,644	
Legal expenses .....	(4)	5,300	
Management fees .....	(5)	22,287	
Accountancy .....		1,100	
Miscellaneous expenses .....	(6)	5,217	
Depreciation .....		10,000	
			<u>90,186</u>
Surplus income over expenditure for year .....			<u>28,789</u>

NOTES

(1) *Rental Income*

Roberto received rental income from the following properties:

	£
Office building .....	52,000
Shop .....	44,500
House .....	12,000
Apartment .....	7,200
Advertising Board .....	3,275
	<u>118,975</u>

The rent for the office includes £4,000 paid in advance for the month of April 2009. This £4,000 was not due until 21<sup>st</sup> April 2009.

The rent for the shop includes £14,500 received as a premium on a fifteen year lease granted on 1<sup>st</sup> June 2008. Only 28% of this amount of £14,500 is deductible against taxable income in the year. The rent received on the advertising board is for a board attached to the exterior wall of this shop.

(2) *Rates*

The rates for the shop amounted to £2,820, the rates for the house £2,650 and £1,212 for the apartment. No rates have been paid for the office but Roberto has just received a bill in respect of these rates for £6,233 for the year ended 5<sup>th</sup> April 2009, which is not included in the above accounts but which Roberto can, under the terms of the lease, pass on to the tenants of this office property.

**QUESTION 1** (*Cont'd*).

**(3) Repairs**

Repairs include the following:

	£
Addition of new conservatory to house .....	7,893
Electricity charge to connect shop to mains .....	2,500
Repairs to the drains at apartment .....	740
	<u>11,133</u>

The tenants of the shop paid £320 in respect of external painting of the shop which under the terms of the lease agreement, Roberto should have paid. This bill is not included in the £11,133 above, but the tenants have now requested that Roberto reimburse them the £320.

**(4) Legal expenses**

This includes £5,000 for the purchase of the apartment in May 2008 and £300 for setting up the lease of this apartment.

**(5) Management fees**

This amount includes £21,000 paid by Roberto to himself during the year for collecting rents and maintaining the rental properties. The remaining £1,287 was paid to a local estate agent for collecting the rental income on the apartment.

**(6) Miscellaneous expenses**

These include gardening costs of £1,217 and £4,000 paid to Roberto's son Tristan for maintaining the properties when Roberto & Alex took a three month holiday to their summer holiday home in Florida.

**(7) Fixed Assets**

On 1<sup>st</sup> January 2009 Roberto bought a new till for the shop costing £3,000.

**(8) Wear and Tear allowance**

The house has been let unfurnished. The apartment has been let out fully furnished.

**(b) Other income:**

Roberto's only other income was an occupational pension from a previous employer, Athletico Sportswear, amounting to £17,000 for the tax year ended 5<sup>th</sup> April 2009 from which PAYE of £6,000 has been deducted. Roberto also received dividends of £900 (net) from Pool Commercials plc.

**(c) Offer for office building:**

On 1<sup>st</sup> April 2009 Roberto sold the office building for £700,000 and there were no other capital disposals in this year. Tax allowable costs of £11,000 were incurred in respect of the sale. Roberto had originally bought this building for £500,000 on 16<sup>th</sup> May 2003.

**Requirement**

For the tax year ended 5<sup>th</sup> April 2009:

**(i)** Compute the net rental income of Roberto Torres.

**12 Marks**

**(ii)** Calculate any balance of Income Tax payable or repayable by Roberto Torres.

**5 Marks**

**(iii)** Compute Roberto's Capital Gains Tax liability on the sale of the office building.

**3 Marks**

**Total 20 Marks**

**QUESTION 2 (Compulsory)**

BITTER BEVERAGES, a Northern Ireland business, had been VAT registered for fifteen months, when because of cash flow difficulties, it decided to join the cash accounting scheme for VAT, with effect from 1<sup>st</sup> July 2008. BITTER BEVERAGES' accounting records for the quarter ended 30<sup>th</sup> September 2008 show the following entries:

**Income**

	Net £	VAT £
Receipts in respect of invoices from the previous VAT period		
Cheques received from debtors	12,000	2,100
Cash receipts	1,000	175
Receipts in respect of invoices from the current VAT period		
Cheques received and banked	65,000	11,375
Cheques received but not banked	4,000	700
Credit card transactions still to be settled by the card provider	8,000	1,400
Sales Invoices still outstanding at 30 <sup>th</sup> September 2008	36,000	6,300

**Expenditure**

Motor expenses	3,000	525
Settlement of creditors from previous VAT quarter	15,000	2,625
Invoices received and paid in the current period	33,000	5,775
Unpaid invoices at 30 <sup>th</sup> September 2008	10,000	1,750
Purchase of a second hand van	3,750	-
Accountancy fees from an unregistered accountant	2,000	-
Vatable overheads - paid in the quarter	4,000	700

In addition in the current VAT period BITTER BEVERAGES purchased new plant costing £36,000 plus VAT, on hire purchase. BITTER BEVERAGES paid £3,000 on 10<sup>th</sup> September 2008, under the terms of the agreement. The managing director and sales director both drive company cars, for which petrol is provided by the company. Those vehicles have CO2 emissions of 200g/km and were available to the directors throughout the quarter.

**Requirement**

- (i) Compute the Output VAT and Input VAT due on the VAT return for Bitter Beverages in respect of the quarter ended 30<sup>th</sup> September 2008, clearly explaining which items need to be or require adjustment and if necessary note which items (if any) need to be carried forward for adjustment on the next quarter's VAT return for Bitter Beverages. **8 Marks**
- (ii) State *two* advantages and *two* disadvantages of joining the cash accounting scheme. **4 Marks**
- (iii) State *four* requirements that a business must satisfy for it to be eligible to join the cash accounting scheme. **4 Marks**
- (iv) On 31<sup>st</sup> March 2009 Bitter Beverages exceeded the turnover limit for the cash accounting scheme. The managing director for Bitter Beverages has informed you that he is not sure whether this limit has been exceeded as a result of Bitter Beverages general increase in sales turnover or due to the sale of a large item of capital equipment. State clearly what Bitter Beverages is required to do now if it has exceeded the limits for the scheme. **4 Marks**

**Total 20 Marks**

**QUESTION 3 (Compulsory)**

ROOSTER Ltd is a Northern Ireland resident, medium sized private company, whose principal activity is selling dry goods and toys to the pet market. ROOSTER Ltd commenced trading on the 1<sup>st</sup> April 2008. The directors of the company are Adam Fowler and Ester Leghorn who also own the company's shares equally.

Extracts from the financial statements of Rooster Ltd for the year ended 31<sup>st</sup> March 2009 were as follows:

PROFIT STATEMENT	Notes	2009 £
Sales .....		2,978,924
Cost of sales .....		(2,040,032)
Gross Profit .....		938,892
Expenses .....	(1)	529,312
Net Operating Profit .....		409,580
<i>Other income:</i>		
Rental income .....		40,000
Profit before taxation .....		449,580
Taxation provision .....		140,000
Profit retained		<u>309,580</u>

**NOTES**

(1) Expenses are as follows:	Notes	£
Directors' remuneration .....	(a)	97,600
Staff wages .....		194,321
Commissions paid to selling agents .....		10,000
Rebates to customers for bulk orders received .....		14,555
Employers NIC .....		35,834
Directors' pension contributions .....	(b)	20,000
Insurance .....		12,500
Heat & light .....		5,710
Repairs and renewals .....	(c)	27,947
Telephone and fax .....		6,912
Audit and accountancy .....		6,785
Entertainment .....	(d)	6,000
Motor & travel .....		34,978
Legal & professional fees .....	(e)	11,830
Sundry expenses .....	(f)	4,940
Bank interest .....	(g)	13,067
Depreciation .....		26,333
		<u>529,312</u>

**NOTES**

- (a) In addition, the directors each received a bonus of £4,000 in respect of the year ended 31<sup>st</sup> March 2008 which had been accrued in the previous year's accounts. The directors also received dividends of £6,000 each on 1<sup>st</sup> December 2008.
- (b) The figure for Directors' pensions (above) does not include a payment of £8,000 on 1<sup>st</sup> April 2008 which had been accrued for in the company's accounts for the previous year. £5,000 of the £20,000 included above was paid late on 4<sup>th</sup> April 2009.
- (c) The figure for repairs in the accounts includes £19,081 spent on an internal reconstruction of the building to provide a separate showroom area.

**QUESTION 3** (Cont'd)

- (d) Entertainment is made up as follows:

	£
Customer entertainment .....	2,965
Christmas food hampers & wine bearing the company's name .....	2,250
Staff Christmas party .....	785
	<u>6,000</u>

- (e) Legal and professional fees include £6,180 spent developing a new website for the company, £3,820 on a new company logo and £1,830 spent registering a trade mark for the company.

- (f) Sundry expenses were comprised of the following:

	£
Canteen expenses .....	2,498
Agency fees for staff recruitment .....	1,370
VAT surcharge late payment .....	888
Cleaning materials .....	184
	<u>4,940</u>

- (g) Bank interest paid includes £5,969 in respect of a loan on an investment property owned by the company, on which it received the rental income of £40,000 shown in the financial accounts.

- (2) An Annual investment allowance of £31,549 is due to the company in respect of expenditure incurred on allowable capital equipment during this accounting period.

- (3) ROOSTER Ltd has two associated companies for Corporation Tax purposes.

**Requirement**

- (i) Calculate the corporation tax liability of ROOSTER Ltd for the accounting period of 12 months ended 31<sup>st</sup> March 2009. **18 Marks**
- (ii) State the dates by which any liability to Corporation Tax must be paid and the date by which any Corporation Tax return must be made by ROOSTER Ltd under Self Assessment of Corporation Tax.

**2 Marks**  
**Total 20 Marks**



## SECTION B

Answer ANY TWO of the FOUR questions in Section B

## QUESTION 4

- (a) On 31<sup>st</sup> December 2008 Martin Agnew sold the remaining 32 acres of his farmland on the outskirts of Armagh for £380,000. Selling expenses of this land amounted to £5,000. The land had originally been left to Martin on the death of his uncle Gerald on 1<sup>st</sup> July 2000. At that time it was part of a 40 acre holding left under the terms of Gerald's will to Martin when the probate value of the total holding was £200,000. Martin had obtained planning permission on the other 8 acres during January 2006 and sold these 8 acres for £880,000 at that time, when the value of the remaining 32 acres was £240,000. Martin worked as a solicitor in Warrenpoint and had never used the farmland as a business asset.

Martin had unutilised capital losses of £12,150 brought forward at 6<sup>th</sup> April 2008 and no other capital disposals during the tax year 2008/09.

**Requirement**

Compute the Capital Gains Tax position of Martin Agnew in respect of the sale of this land on 31<sup>st</sup> December 2008.

**7 Marks**

- (b) On 31<sup>st</sup> December 2008 Kelvin O'Dowd sold his prize greyhound for £9,950. Kelvin had unutilised capital losses of £2,150 brought forward at 6<sup>th</sup> April 2008 and no other capital disposals during the tax year 2008/09.

**Requirement**

Explaining your answer compute any Capital Gains Tax payable by Kelvin O'Dowd on the sale of this greyhound.

**3 Marks**

- (c) On 1<sup>st</sup> January 2009, Jan Smolarek, a UK resident aged 61, sold his management consultancy practise for £760,000, which included the premises, goodwill and fixtures and fittings. The sales proceeds were apportioned as follows:

	Sales Proceeds £	Cost £	Acquisition Date
Premises .....	260,000	60,000	1 September 1990
Goodwill .....	490,000	0	1 September 1990
Fixtures and fittings .....	10,000	24,000	1 January 2002
	<u>760,000</u>		

Capital allowances had been claimed on the fixtures and fittings and in all individual cases the apportioned sales proceeds did not exceed costs.

In connection with the disposal Jan had the following costs:

	£
Accountant fees for CGT planning .....	2,300
Solicitors costs on disposal .....	6,125
Advertising costs .....	1,410
Estate agents fees .....	1,850
	<u>11,685</u>

Jan had unutilised capital losses brought forward at 6<sup>th</sup> April 2008 of £21,000.

**Requirement**

For 2008/09 compute any Capital Gains Tax payable by Jan on the sale of the business taking into account any Entrepreneurs' relief available to Jan on the disposal.

**10 Marks****Total 20 Marks**

## QUESTION 5

The following multiple choice question consists of TEN parts, each of which is followed by FOUR possible answers. There is ONLY ONE right answer in each part.

**Requirement**

Indicate the right answer to each of the following TEN parts.

**Total 20 Marks**

**N. B. Each part carries 2 marks.**

*Candidates should answer this question by ticking the appropriate boxes on the special green answer sheet which is supplied with the examination paper.*

- [1] Zebedee a UK registered taxpayer who pays his VAT late would not be treated as being in default if he had a 'reasonable excuse'. Which of the following is not given by HM Revenue & Customs as a possible 'reasonable excuse' for late payment of VAT: -
- (a) A letter from the bank stating a 'temporary shortfall in working capital'
  - (b) The loss of records
  - (c) The loss of a key member of staff
  - (d) Illness
- [2] Yvonne who has a UK VAT registered business prepares her VAT returns using the calendar quarters. Her return for the period ended 30<sup>th</sup> June 2008 was submitted late. Yvonne had never previously submitted a VAT return late and the return for the next two quarters was submitted in good time. For the quarter ended 31<sup>st</sup> March 2009 the return was not submitted until 14<sup>th</sup> May 2009 and the VAT due of £21,500 paid on the same date. The VAT penalty due on the late submission of this return is: -
- (a) Nil as less than £400
  - (b) £430
  - (c) £537
  - (d) £1,075
- [3] Which of the following statements is most likely to indicate self-employment as opposed to employment in respect of a UK taxpayer?
- (a) They risk their own money and have to correct unsatisfactory work at their own expense.
  - (b) They work fixed hours and are paid an hourly rate
  - (c) They are required to carry out the work themselves
  - (d) They are entitled to be paid overtime
- [4] Mike submitted his 2007/08 tax return on 31<sup>st</sup> October 2008 and has now remembered that he omitted to include a large capital gain which he made on the disposal of a capital asset during the tax year to 5<sup>th</sup> April 2008. The deadline for amending Mike's 2007/08 tax return is: -
- (a) 31<sup>st</sup> January 2009
  - (b) 5<sup>th</sup> April 2009
  - (c) 31<sup>st</sup> October 2009
  - (d) 31<sup>st</sup> January 2010
- [5] Which of the following acts committed by a UK resident individual is not necessarily a money laundering offence under the Proceeds of Crime Act: -
- (a) Advising a client who is a UK taxpayer that the Serious Organised Crime Agency (SOCA) wish to have sight of their books and records
  - (b) Negligently failing to disclose all significant sources of income on their UK tax return.
  - (c) Concealing another unconnected source of income from one of their business partners
  - (d) The issue of sales invoices in advance of any supply taking place in order to ensure that cash advancements are not withdrawn under an invoice discounting arrangement with the bank

**QUESTION 5 (Cont'd)**

- [6] Kevin drives a company car for which all expenses including fuel are paid by the company. The car which has a price of £20,000 is a 1850 cc car with CO2 emissions of 198g/km and has a petrol engine. Assuming Kevin first became entitled to his company car on 6<sup>th</sup> October 2008, the total benefit in kind in respect of it for 2008/09 is:

- (a) £4,982
- (b) £5,400
- (c) £5,535
- (d) £9,963

- [7] Which of the following is normally payable by a business in respect of a company car provided for one of the employers staff: -

- (a) Class 1A National Insurance Contributions on company car benefits
- (b) Class 2 National Insurance Contributions on company car benefits
- (c) Class 3 National Insurance Contributions on company car benefits
- (d) Class 4 National Insurance Contributions on company car benefits

- [8] Carmel sold her retail business on 1<sup>st</sup> November 2008 and made a net gain for Capital Gains Tax purposes of £1,200,000 on the sale before entrepreneurial relief. Carmel had started the business on 1<sup>st</sup> December 1998. The amount of capital gains tax payable on the sale of this business by Carmel (assuming full entitlement to entrepreneurial relief) is as follows: -

- (a) £34,272
- (b) £119,040
- (c) £134,272
- (d) £214,272

- [9] Philip started trading on 1<sup>st</sup> April 2008 and prepared his first set of accounts to 31<sup>st</sup> March 2009. During this period he acquired the following assets for use in his business: -

1 <sup>st</sup> May 2008	.....	New car	£19,000
1 <sup>st</sup> February 2009	.....	Fixtures & equipment	£17,980

Assuming that the Inland Revenue allows 1/3 of the motor expenses as being incurred for business purposes AND Philip qualifies for the AIA (annual investment allowance) what are the maximum capital allowances that Philip can claim for the period of trading ended 31<sup>st</sup> March 2009?

- (a) £17,980
- (b) £18,980
- (c) £19,980
- (d) £20,980

- [10] Which of the following is not normally an allowable deduction for Schedule D Corporation Tax in a private limited company's financial statements: -

- (a) Audit fees
- (b) Legal fees to secure title to an investment property
- (c) Statutory redundancy payments in respect of employees made redundant during the period of account
- (d) Pension contributions made by the company into approved personal pension schemes for the directors

**QUESTION 6**

- (a) BENNY DOFFER Ltd is a medium sized Northern Ireland registered company with no associated companies, which prepares its accounts to 31<sup>st</sup> December every year. During the year ended 31<sup>st</sup> December 2008 the company incurred expenditure of £67,000 on plant and machinery. This includes £15,000 spent on 1<sup>st</sup> January 2008 on machinery purchased under a hire purchase agreement for which a 10% deposit was paid and the remainder payable over 36 monthly payments. The remaining expenditure of £52,000 was incurred on 1<sup>st</sup> July 2008 in respect of new plant for the factory. There is no WDV B/FWD from previous years.

A further £3,600 was spent by the company on 21<sup>st</sup> April, on a new table for its boardroom.

In addition, the company spent £16,000 on a car for a salesman first registered on 1<sup>st</sup> May 2008 which emits 175g/km CO<sub>2</sub> and £33,100 on a BMW for one of its directors on 30<sup>th</sup> November 2008.

**Requirement**

In respect of the accounting period of twelve months ended 31<sup>st</sup> December 2008 for BENNY DOFFER Ltd:-

- (a) Prepare the company's capital allowances computation for plant & machinery and motor vehicles assuming that where available all allowances are claimed at the earliest possible times.

**10 Marks**

- (b) You are employed by ATZ Accountants and your manager Sid Drake has requested that you draft a letter on his behalf to George Partridge who is the managing director of one of the firm's clients. PEACOCK CONTRACTS Ltd is a building company which commenced trading on 1<sup>st</sup> September 2008. George Partridge has recently telephoned Sid to enquire as to whether application can be made to enable the company to receive payments gross under the Construction Industry Scheme (CIS). George is aware that there are certain tests that the company must pass in order to qualify for gross payment.

**Requirement**

- (i) You are required to write a letter to George Partridge clearly detailing how application can be made and the requirements of these three tests that the company must pass in order to qualify for gross payments as a sub-contractor under CIS.

**6 Marks**

- (ii) Please show how the tax deduction is calculated for the following payment to a sub-contractor of PEACOCK CONTRACTS Ltd named James Grouse who has been verified as a "20% net sub-contractor":

	£
Labour element .....	900
Materials .....	380
VAT .....	224

**4 Marks**

**Total 20 Marks**

**QUESTION 7**

- (a) Ms Carmel Zucker is employed by XANADIP FORTUNES Ltd., a UK registered company. Ms Zucker's gross salary for 2008/09 was £26,000 per annum.

In addition Ms Zucker has another business interest from which she received Schedule D Case 1 taxable trading income under self employment of £33,000 in 2008/09.

**Requirement**

Compute the maximum Class 4 National Insurance Liability for Ms Carmel Zucker for 2008/09

**5 Marks**

- (b) Nicola Webbe is employed as a marketing executive by GLOBAL ENTERPRISES Ltd a UK registered company. Nicola was provided with a company car on the commencement of her employment on 1<sup>st</sup> June 2008. The car had a 2000cc engine and a CO2 emissions figure of 219g/km. The car had a list price of £28,765 and extras costing £2,120 which added to the car when acquiring it. GLOBAL ENTERPRISES paid £27,000 for the car inclusive of extras. GLOBAL ENTERPRISES Ltd pays for all diesel costs in respect of this car and also pays Nicola's car insurance costs of £1,000.

**Requirement**

Show clearly the taxable value of any benefit in kind provided to Nicola in respect of this car for 2008/09

**5 Marks**

- (c) Spencer Dingle is a client of QZ Accountants and he has recently had a VAT audit visit at which no significant material errors were discovered. During the course of your work on Spencer's accounts, you have discovered that there has been a significant underpayment of VAT in the most recent quarter's VAT return, as a result of the inclusion of input VAT claimed on a large capital item which had already been claimed in a previous quarter. You have spoken to Spencer about this and he is unhappy that this error may give rise to a serious misdeclaration penalty. In addition, he has intimated that he doesn't consider the VAT people will ever discover the error because they have already reviewed all periods including the last quarter in their audit visit.

**Requirement**

You have informed your manager at QZ Accountants who has asked that you:-

- (i) Draft a letter on behalf of the firm to Spencer Dingle setting out the circumstances in which a serious misdeclaration penalty may be charged by HM Revenue & Customs.
- (ii) Send a memo to the partner informing him of the circumstances of the error and the firm's ethical considerations if Spencer Dingle is adamant he doesn't wish to report the error.

**7 Marks**

**3 Marks**

**Total 20 Marks**



# STANDARD ANSWER SHEET FOR ALL MULTIPLE CHOICE QUESTIONS



**Accounting  
Technicians  
Ireland**

Candidates are required to insert the following details.

Examination Session .....

Examination Session .....

Examination Session .....

Examination Session .....

**To answer each section, please tick appropriate box.**

Part		Part		Part		Part		Part	
1	(a) <input type="checkbox"/>	6	(a) <input type="checkbox"/>	11	(a) <input type="checkbox"/>	16	(a) <input type="checkbox"/>	21	(a) <input type="checkbox"/>
	(b) <input type="checkbox"/>		(b) <input type="checkbox"/>		(b) <input type="checkbox"/>		(b) <input type="checkbox"/>		(b) <input type="checkbox"/>
	(c) <input type="checkbox"/>		(c) <input type="checkbox"/>		(c) <input type="checkbox"/>		(c) <input type="checkbox"/>		(c) <input type="checkbox"/>
	(d) <input type="checkbox"/>		(d) <input type="checkbox"/>		(d) <input type="checkbox"/>		(d) <input type="checkbox"/>		(d) <input type="checkbox"/>
2	(a) <input type="checkbox"/>	7	(a) <input type="checkbox"/>	12	(a) <input type="checkbox"/>	17	(a) <input type="checkbox"/>	22	(a) <input type="checkbox"/>
	(b) <input type="checkbox"/>		(b) <input type="checkbox"/>		(b) <input type="checkbox"/>		(b) <input type="checkbox"/>		(b) <input type="checkbox"/>
	(c) <input type="checkbox"/>		(c) <input type="checkbox"/>		(c) <input type="checkbox"/>		(c) <input type="checkbox"/>		(c) <input type="checkbox"/>
	(d) <input type="checkbox"/>		(d) <input type="checkbox"/>		(d) <input type="checkbox"/>		(d) <input type="checkbox"/>		(d) <input type="checkbox"/>
3	(a) <input type="checkbox"/>	8	(a) <input type="checkbox"/>	13	(a) <input type="checkbox"/>	18	(a) <input type="checkbox"/>	23	(a) <input type="checkbox"/>
	(b) <input type="checkbox"/>		(b) <input type="checkbox"/>		(b) <input type="checkbox"/>		(b) <input type="checkbox"/>		(b) <input type="checkbox"/>
	(c) <input type="checkbox"/>		(c) <input type="checkbox"/>		(c) <input type="checkbox"/>		(c) <input type="checkbox"/>		(c) <input type="checkbox"/>
	(d) <input type="checkbox"/>		(d) <input type="checkbox"/>		(d) <input type="checkbox"/>		(d) <input type="checkbox"/>		(d) <input type="checkbox"/>
4	(a) <input type="checkbox"/>	9	(a) <input type="checkbox"/>	14	(a) <input type="checkbox"/>	19	(a) <input type="checkbox"/>	24	(a) <input type="checkbox"/>
	(b) <input type="checkbox"/>		(b) <input type="checkbox"/>		(b) <input type="checkbox"/>		(b) <input type="checkbox"/>		(b) <input type="checkbox"/>
	(c) <input type="checkbox"/>		(c) <input type="checkbox"/>		(c) <input type="checkbox"/>		(c) <input type="checkbox"/>		(c) <input type="checkbox"/>
	(d) <input type="checkbox"/>		(d) <input type="checkbox"/>		(d) <input type="checkbox"/>		(d) <input type="checkbox"/>		(d) <input type="checkbox"/>
5	(a) <input type="checkbox"/>	10	(a) <input type="checkbox"/>	15	(a) <input type="checkbox"/>	20	(a) <input type="checkbox"/>	25	(a) <input type="checkbox"/>
	(b) <input type="checkbox"/>		(b) <input type="checkbox"/>		(b) <input type="checkbox"/>		(b) <input type="checkbox"/>		(b) <input type="checkbox"/>
	(c) <input type="checkbox"/>		(c) <input type="checkbox"/>		(c) <input type="checkbox"/>		(c) <input type="checkbox"/>		(c) <input type="checkbox"/>
	(d) <input type="checkbox"/>		(d) <input type="checkbox"/>		(d) <input type="checkbox"/>		(d) <input type="checkbox"/>		(d) <input type="checkbox"/>



# Taxation Reference Material

Northern Ireland

**For use in First and Second Year Taxations Examinations  
Summer & Autumn 2009**

**Professional, Practical, Proven**

[www.AccountingTechniciansIreland.ie](http://www.AccountingTechniciansIreland.ie)



# TAXATION REFERENCE MATERIAL

## FOR TAX YEAR 2008/09

(To be used by candidates in answering the Taxation papers)

### INCOME TAX

	Rate
	%
First £34,800 .....	20
Balance (over £34,800) .....	40
Dividends higher rate .....	32½

From 2008/09 onwards the starting rate band is abolished. A new starting rate savings band for individuals is introduced. For 2008/09 the band is £2,320. Where an individual's non-savings income is less than the starting rate limit for savings, the savings income is taxable at the 10% starting rate for savings up to the limit. Where non-savings income exceeds the limit, the starting rate for savings does not apply.

### ALLOWANCES

	£
Personal .....	6,035
Blind persons allowance .....	1,800

#### Married couples

Elder born before 6 April 1935 to age 74	6,535
Age 75 and over .....	6,625
Both subject to a minimum allowance of	2,540

Where applicable MCA attract tax relief at 10%

#### Age allowance

Personal (Under 75) .....	9,030
---------------------------	-------

Maximum income before abatement of relief .....	21,800
---	--------

#### Abatement income ceiling

Personal .....	27,790
Married .....	35,780



Personal (Over 75) .....	9,180
Maximum income before abatement of relief.....	21,800
Abatement income ceiling	
Personal .....	28,090
Married .....	36,260

**RATE OF INTEREST**

Official rate of interest	6.25%
---------------------------	-------

**SCALE BENEFITS - MOTOR CARS**

Percentage of manufacturer's list price	
2008-2009	
CO2 emissions in grams per kilometre (g/km)	% of car's price to be taxed
120	10
135	15
140	16
145	17
150	18
155	19
160	20
165	21
170	22
175	23
180	24
185	25
190	26
195	27
200	28
205	29
210	30
215	31
220	32
225	33
230	34
235 & above	35

Car benefit is calculated on a percentage of the list price of the car plus the price of optional accessories when the car was first registered appropriate to the level of the car's CO<sub>2</sub> emissions. There is a 3% supplement on diesel cars not meeting Euro IV emission standards subject to the maximum charge of 35%.

**SCALE BENEFITS - FUEL SUPPLIED FOR PRIVATE USE**

The same percentage as for car benefit will be applied to the fixed sum of £16,900.

**VAT REGISTRATION LIMITS**

From 1/04/08	£67,000
From 1/04/08	£65,000 (deregistration possible)

**VAT ON PRIVATE FUEL****SCALE BENEFITS - MOTOR CARS**

From 01/05/2008 24 bands based on CO<sub>2</sub> emissions apply where private fuel is provided  
(see table below)

<b>VAT fuel scale charges (inclusive of VAT)</b>	
<b>2008-2009</b>	
<b>CO2 emissions in grams per kilometre (g/km)</b>	<b>VAT fuel scale charge 3 month period (£)</b>
120 or below	138
125	207
130	207
135	207
140	221
145	234
150	248
155	262
160	276
165	290
170	303
175	317
180	331
185	345
190	359
195	373
200	386
205	400
210	414
215	428
220	442
225	455
230	469
235 & above	483

**CAPITAL GAINS TAX**

	2008/09	2007/08	2006/07	2005/06
Annual exemption	£9,600	£9,200	£8,800	£8,500
Rate .....	18%			

**Entrepreneurs' relief** – This will reduce the chargeable gain on qualifying assets by 4/9 – an effective rate of 10%. An individual will be able to make claims for disposals on or after 6 April 2008. Claims may be made on more than one occasion up to a lifetime total of £1 million of gains

**CORPORATION TAX**

	Financial Year commencing	
	1 <sup>st</sup> April 08	1 <sup>st</sup> April 09
	%	%
First £300,000 .....	21	20
Next £1,200,000 .....	29.75	32.5
Over £1,500,000 .....	28	30
Small companies' marginal relief fraction .....	$\frac{7}{400}$	$\frac{1}{400}$

**PERSONAL RETIREMENT PROVISIONS****PENSION CONTRIBUTIONS**

## Limit of Allowable Payment

Individuals may obtain tax relief on any contributions made to a registered pension scheme, up to 100% of their relevant UK earnings for a tax year, **OR** £3,600 per year if their relevant UK earnings are less than this amount.

Employer contributions do not count as part of an individual's contributions. The normal minimum pension age is 50 but this may be higher for some schemes. Pension benefits must be taken by the age of 75.

There are annual and lifetime limits on the value of contributions made to a registered scheme, tax charges will be applied where these limits are exceeded.

	Annual Allowance	Lifetime Allowance
2008/09	£235,000	£1.65million

**Earnings limits and National Insurance contribution rates**

	Employee's contribution	Employer's contribution
	<i>Contribution Table Letter A</i>	<i>Contribution Table Letter A</i>
Below £90.00 weekly or Below £390.00 monthly or Below £4,680.00 yearly	Nil	Nil
£90.00 to £105.00 weekly or £390.00 to £453.00 monthly or £4,680.00 to £5,435.00 yearly	0%	0%
£105.01 to £770.00 weekly or £453.01 to £3,337.00 monthly or £5,435.01 to £40,040.00 yearly	11% on earnings above the Earnings Threshold	12.8% on earnings above the Earnings Threshold
Over £770.00 weekly or Over £3,337.00 monthly or Over £40,040.00 yearly	1% on earnings above the UEL	12.8% on all earnings above the Earnings Threshold

\*Class 4 NIC - 2008/09 Self employed on profits between £5,435 and £40,040 at the rate of 8% and on profits over £40,040 at the rate of 1%.

Exemption from employees primary contributions OR self employed contributions applies if state pension age was reached by 6 April 2008.



# NEW SYLLABUS

2<sup>nd</sup> Year Examination : Summer 2009

## TAXATION II (NI)

### Solutions

#### Solution to question 1

(i) Robert Torres	£	£	£
Surplus Rental income			28,789.00
less			
advance payment - rent			(4,000.00)
lease premium			(4,060.00)
10% wda - furnished property			(599.00)
			<u>20,130.00</u>
Rates - office			
depreciation		10,000.00	
repairs - capital improvements	7,893.00		
repairs - electricity connection charge	2,500.00		
repairs - reimburse tenants/painting	<u>(320.00)</u>		
		10,073.00	
legal expenses - capital acquisition		5,000.00	
mgt fees - Roberto		<u>21,000.00</u>	
			46,073.00
Rental income adjusted surplus			<u>66,203.00</u>
fixed assets/allowances (3,000 x 20%)			600.00
			<u><u>65,603.00</u></u>

#### OR alternatively

Rental income		118,975	6,233
advance - rent		(4,000)	
lease premium		<u>(4,060)</u>	
		110,915	
Service charge	8,650		
Rates - office	6,682		
depreciation	-		
insurance	2,573		
repairs - drains	740		
repairs - accrual	320		
letting fees	2,600		
legal expenses	300		
mgt fees - est agent	1,287		
Bank loan interest	14,644		
accountancy	1,100		
sundry	5,217		
wear & tear allow	<u>599</u>		
		44,712	
capital allowances		600	
		<u><u>65,603</u></u>	

6,233 rates payable by tenants

Solution to question 1 continued on next page

## Solution to question 1 (Cont'd)

(ii) Roberto Torres - Income Tax computation for the y/e 5<sup>th</sup> April 2009

		Tax deducted PAYE/Tax credit
	£	£
Occupational pension	17,000.00	6,000.00
Property income	65,603.00	-
Dividend income 900 x 10/9	1,000.00	100.00
	83,603.00	<u>6,100.00</u>
deduct personal allowances	(6,035.00)	
	<u>77,568.00</u>	
<b>Tax payable</b>		
First £34,800	20%	6,960.00
Balance	40%	16,707.20
Dividends	32.5%	<u>325.00</u>
		23,992.20
Less PAYE		(6,000.00)
Tax credit/dividends		(100.00)
<b>Balance of Income Tax payable</b>		<u><u>17,892.20</u></u>

## (iii) Capital gain arising on Sale of Office building

Sales proceeds - 1 <sup>st</sup> April 2009	700,000.00
Deduct tax allowable costs on sale	(11,000.00)
Net sales proceeds	<u>689,000.00</u>
Building cost - 16 <sup>th</sup> May 2003	(500,000.00)
Capital Gain arising on sale	189,000.00
Annual exemption	<u>(9,600.00)</u>
Taxable gain	<u><u>179,400.00</u></u>
<b>Capital Gains Tax payable 18%</b>	<b>32,292.00</b>

## Solution to question 2

## Bitter Beverages

(i) VAT for the year ended 30<sup>th</sup> September 2008

Output VAT	Net £	Vat £
Sales (current period) - cash receipts	65,000.00	11,375.00
Sales (received but not yet banked)	4,000.00	700.00
	69,000.00	12,075.00
<b>Scale charge</b> - output VAT motor vehicles 2 cars x £386 x 7/47	657.02	114.98
	69,657.02	12,189.98
<b>Input VAT</b>		
Expenditure cost		
Invoices paid - re current period	33,000.00	5,775.00
Fixed assets acquired - new plant	36,000.00	6,300.00
Overheads	4,000.00	700.00
Motor expenses	3,000.00	525.00
	76,000.00	13,300.00 ( Box 4 )
<b>VAT Re-Payment due</b> (Box 3 - Box 4)		(1,110.02) (Box 5)

(ii) Two **advantages** of the 'cash accounting scheme':

- Output VAT does not need to be paid to HMRC on debtors until money is received (helps with slow payers). If the customer pays promptly advantage will be limited but even so gain may be material.
- automatic relief for any bad or doubtful debts .
- simpler bookkeeping system (really just need analysed cash books).

Two **disadvantages** of the cash accounting scheme.

- no input tax recovery until payment of suppliers invoices - major disadvantage if you purchase supplies on credit.
- not suitable for net repayment businesses, most retail businesses or start up businesses where there is substantial initial outlay on equipment & other costs.

## (iii) Four requirements that need to be satisfied in order to use the scheme

- All VAT returns submitted up to date.
- Turnover not exceeding £1,350,000 (net) in the next 12 months.
- Arrangements made with HMRC to clear any arrears of VAT.
- You have not been convicted of a VAT offence or charged with VAT evasion in the last 12 months.

## (iv) Once you have joined the scheme you may continue to use it until the annual value of your taxable supplies including the disposal of stock and capital assets exceeds £1.6 million. If this value is exceeded you will have to leave the scheme at the end of your current VAT period &amp; use normal basis in future.

An exception to this rule occurs if you exceed this limit because of a one-off increase in sales, providing you meet all the following criteria:

- the one-off increase has not happened before and is not expected to happen again (e.g. due to sale of a large item of plant).
- the sale arose from a genuine commercial activity.
- there are reasonable grounds for believing your turnover level in the next 12 months will not exceed £1.35 million.

**Solution to question 3**

**Rooster Ltd**

**(i) Computation of adjusted profits chargeable to corporation tax**

	£	£	y/e 31/03/2009 £
Net Profits before tax (as per accounts )			449,580
<i>Add</i>			
Directors pension accrual		5,000	
Installation of showroom - capital		19,081	
Entertainment - customers	2,965		
Entertainment - food hampers	<u>2,250</u>		
		5,215	
Legal services re trade mark		3,820	
Depreciation		26,333	
Sundry expenses - VAT surcharge		888	
Bank interest - rental property		<u>5,969</u>	
			66,306
			<u>515,886</u>
<i>Deduct</i>			
Rental income		40,000	
Directors pension - last yrs accrual		8,000	
Capital allowances/Annual investment allowance		<u>31,549</u>	
			79,549
Schedule D case 1			<u>436,337</u>

**Computation of mainstream corporation tax payable y/e 31<sup>st</sup> March 2009**

	£	£
Schedule D case 1	436,337	
Income from property (£40,000 - £5,969)	<u>34,031</u>	
Profits chargeable to corporation tax		<u>470,368</u>
F/Yr 08		
2 associated companies therefore divide limits by 3		
CT @ 28% on £470,368	131,703.04	
Less marginal relief		
(7 / 400 (500,000 - 470,368) x 470,368 / 470,368)	<u>518.56</u>	
<b>Mainstream corporation tax payable</b>		<b><u>131,184.48</u></b>

**OR**

100,000 @ 21%	21,000.00	
370,368 @ 29.75%	<u>110,184.48</u>	
		<u>131,184.48</u>

**(ii) Corporation tax must be paid by 1<sup>st</sup> January 2010**

Corporation tax Return must be filed on or before 31<sup>st</sup> March 2010

**Solution question 4**

**(a) Martin Agnew**

**(i) Sale of Farmland**

	£
Dec-08 Proceeds - 32 acres	380,000
Deduct: - Selling expenses	(5,000)
Net proceeds	375,000
Allocated costs (see workings below) (per below)	(42,857)
Gain	332,143
Less: - capital losses b/fwd	(12,150)
Less: - capital gains annual exemption	(9,600)
Taxable gain	310,393
<b>Capital gains tax payable at 18%</b>	<b><u>55,871</u></b>

**Workings**

Jan-06	Cost apportioned to previous disposal	
	$\text{£}200,000 \times 880,000 / (880,000 + 240,000)$	= 157,143
	Therefore share of costs remaining = $(\text{£}200,000 - 157,143) = 42,857$	

**(ii) Kelvin O'Dowd**

Sale of prize greyhound  
Wasting chattels (i.e. those with a lifespan under 50 years)  
are exempt (e.g. greyhounds) unless they are plant & machinery

**(iii) Jan Sale of Management consultancy practise**

	Total £	Premises £	Goodwill £
01/02/09 Disposal proceeds	750,000	260,000	490,000
deduct selling costs = $(\text{£}11,685 - \text{£}2,300)$	(9,385)	(3,253)	(6,132)
Net Gain before entrepreneurs' relief	740,615	256,747	483,868
Deduct - acquisition costs	(60,000)		
	680,615		
Less capital losses b/fwd	(21,000)		
	659,615		
Less Entrepreneurs relief reduction by 4/9 <sup>ths</sup> (on maximum of £1 million)	(293,162)		
	366,453		
Annual CGT exemption	(9,600)		
Chargeable capital gain on disposal of business	356,853		
<b>Capital Gains Tax payable 18%</b>	<b><u>64,234</u></b>		



**Solution to question 5** -*(Multiple Choice Question)*

- [1] (a) Bank stating a temporary shortfall in working capital
- [2] (b)  $£430 = (21,500 \times 2\%)$
- [3] (a) They risk their own money and have to correct unsatisfactory work at their own expense
- [4] (d) 31<sup>st</sup> January 2010
- [5] (c) Concealing another unconnected source of income from one of their business partners
- [6] (a)  $£4,982 = (50\% \times 20,000 \times 27\%) + (50\% \times 16,900 \times 27\%)$
- [7] (a) Class I A NI contributions are payable by the company in respect of company car benefits)
- [8] (c)  $£134,272 = (1,000,000 \times 5/9 \times 18\%) + (200,000 - 9,600) \times 18\% = )$
- [9] (b) 18,980 (i.e.  $17,980 + 1/3 \times 3,000$ )
- [10] (b) Legal fees to secure title to an investment property

## Solution to question 6

## (a) Benny Doffer Limited

## Capital Allowances computation

		Pool	BMW	New Car	Capital Allowances
	£	£	£	£	£
WDV b/fwd		-			
Additions at cost not eligible for FYA/AIA		-			
Additions at cost for which FYA not claimed		-			
Additions at cost (qualifying for AIA)					
New plant - £52,000	52,000				
Table - £3,600	<u>3,600</u>				
	55,600				
AIA - 100% x 75%	<u>(37,500)</u>				37,500
Balance on additions eligible for WDA		<u>18,100</u>			
		18,100			
Disposals at lower of cost or proceeds of sale		-			
Additions at cost (not eligible for FYA)			33,100	16,000	
		<u>18,100</u>	<u>33,100</u>	<u>16,000</u>	
WDA (21.25%)		(3,846)			3,846
WDA (restricted)			<u>(3,000)</u>	<u>(3,000)</u>	6,000
		14,254	30,100	13,000	
Additions Qualifying for FYA (Hire purchase)	15,000				
Less FYA (50%) - medium sized business	<u>(7,500)</u>				7,500
		<u>7,500</u>			
WDV c/fwd		<u>21,754</u>	<u>30,100</u>	<u>13,000</u>	
<b>Total capital allowances claimed</b>					<b><u>54,846</u></b>

Solution to question 6 continued on next page

**Solution to question 6 (Cont'd)****(b) Peacock Contracts Limited**20<sup>th</sup> May 2009

ATZ Accountant

Mr George Partridge  
 Managing Director  
 Peacock Contracts Ltd  
 Uptown Street  
 Anytown

Dear Mr Partridge

**Construction Industry Scheme**

Further to your recent telephone conversation with our Mr Drake, I am writing to advise you on the requirements necessary to enable your company to receive payments gross under the Construction Industry Scheme (CIS). Hopefully you will find the following advice useful.

**Gross Payments**

To qualify to be paid gross, you must pass three tests set by HM Revenue & Customs. The tests are as follows:

**The Turnover Test**

The company must show a construction turnover of at least £30,000 for each director in the 12 months before application is made. This is the standard test.

There is an alternative turnover test where the company needs to show turnover of £200,000 in the 12 month period.

**The Compliance Test**

The company and the directors in the 12 months before application is made must:

- \* be up to date with all tax returns
- \* have paid all tax & NIC (including payroll PAYE & CIS deductions) by the due dates

**The Business Test**

The company must show it carries on construction work in the UK and has a bank account.

You will need to set out compliance with these tests in the relevant HM Revenue & Customs' application form.

**Sub-contractor Payment**

To give you an indication of how tax is deducted for CIS, I have shown below an example as to how deduction should be calculated for the payment to be made to James Grouse:

Goods & services provided by sub-contractor:

Labour	£900.00	
Materials	£380.00	
VAT	<u>£224.00</u>	
Gross Invoice		<u>£1,504.00</u>

20% deduction is taken from the Labour-only element before VAT is applied. (i.e. £900 @ 20% = £180)

Therefore payment to make to sub-contractor = £1,504 - £180 = £1,324

Yours sincerely

An Accountant

**Solution to question 7****(a) Ms Carmel Zucker**

- (i) Ms Zucker's maximum liability to Class IV NIC is calculated after taking into account national insurance on other earnings:

Class IV max = £40,040 - 5,435 = £34,605 x 8%	=	£2,768.40
<i>less paid</i>		
Class 1 (£26,000 - 5,435) @ 11%	=	<u>£2,262.15</u>
Balance payable (£2,768.40 - £2,262.15)	=	£506.25
£506.25 x 100/8	=	£6,328
£33,000 - 5,435 = £27,565 - 6,328 = £21,237 @ 1%	=	£212
Maximum £506 + £212	=	<u><u>£718</u></u>

**(ii) Ms Nicola Webbe****(a) Car benefit**

Period 1/6/2008 - 5/4/2009		
(31% + 3%) = 34% x (£28,765 + £2,120) = £30,885	=	£10,501
x 10/12	=	£8,751
(insurance covered by above)	=	-

**(b) Car fuel benefit**

Period 1/6/2008 - 5/4/2009		
£16,900 x 34% = £5,746		
x 10/12	=	<u>£4,788</u>
Total taxable benefit in kind regarding the car and fuel is		<u><u>£13,539</u></u>

**Solution to question 7 (Cont'd)****(iii)** 21<sup>st</sup> May

QZ Accountants

Mr Spencer Dingle  
Any Park  
Any Town

Dear Mr Dingle,

**VAT - serious mis-declaration penalty**

As previously advised during the course of our work in preparing your accounts it came to our attention that input VAT on the large machine which you purchased had been claimed on two separate occasions and as a result VAT due to HM Revenue & Customs had been underpaid/over reclaimed.

As this mistake happened on your most recent VAT return however, this should not give rise to a mis-declaration penalty, provided you make a **voluntary** declaration to HM Revenue & Customs within the four month **period of grace** following on from the return period and correct the error.

A mis-declaration penalty will only occur should you fail to disclose the error and it is then subsequently discovered by HM Revenue & Customs and provided the VAT error equals or exceeds the lesser of £1 million and 30% of the gross amount of tax.

The gross amount of VAT is the total combined amount of input tax and output tax which should have been shown on the VAT return.

*For example :* Where the above machine cost £600,000 (net)

VAT on this would have been £90,000 (at 15%) or £105,000 (at 17.5%)

& if VAT on sales was £150,000 & VAT on purchases £120,000

the gross amount of VAT would then be (£255k + £15k = £270k at 17.5%)

and 30% of the gross amount of tax would be 30% x £270k = £81k.

Therefore the error in this case would be in excess of this amount.

The penalty would normally be 15% of the VAT underpaid (ie 15% x £105,000 = £15,750 above)

As a taxpayer you have an obligation to correctly account for VAT and as pointed out above if HM Revenue & Customs subsequently discover the error themselves, then the penalties will be considerably higher than if you had made a voluntary disclosure. I would therefore urge you to make a full and voluntary disclosure correcting this error as soon as possible in order to correct this error on your VAT returns.

Yours sincerely

**An Accountant**

## Solution to question 7 (Cont'd)

## (iv) Memo

**To:** Tax Partner  
**From:** Assistant Accountant

**Subject** Spencer Dingle

In the event of Spencer Dingle refusing to take our advice regarding correcting his VAT error we will have an obligation to report this case to our **Money Laundering Reporting Officer**, who will then consider whether to make a report to **SOCA** (Serious Organised Crime Agency). This is because the definition of **money laundering** includes any process of **concealing an act of tax evasion**.

If we do make a report we should ensure that **we do not inform** Spencer Dingle that we have done so, otherwise we will be committing the offence of '**Tipping Off**'. However, when advising Mr. Dingle to correct the error, we should inform him that failure to do so would oblige us to act in accordance with the legislation.

From an **ethical viewpoint**, under the **Institutes Professional Rules and Practice Guidelines**, a member must do nothing to assist a client to commit any criminal offence or be **negligent in tax matters**. A member who obtains information that leads him to conclude that a client may be guilty of taxation misdemeanours should only continue to act in a professional capacity on the basis that full disclosure is made.

**An Assistant Accountant**



# NEW SYLLABUS

Summer 2009

## TAXATION II (NI)

### Examiner's Report

The examiner was pleased at the general overall improvement in performance shown by many candidates this year, with most making a reasonable attempt at answering all the questions.

**Question 1** (*Average mark obtained - 59.3%*)

This was a relatively straightforward income tax question on rental income in which the majority of candidates coped reasonably well. Some students got themselves into bother by trying to rewrite the rental income account and after starting with the total gross income they then proceeded to deduct non allowable expenses rather than deductible expenditure.

The remainder of the question covered a computation of income tax arising for this individual taxpayer who had several different sources of income and a small capital disposal for capital gains tax also was well answered in all but a few instances.

Overall candidates as in past years fared reasonably well with this income tax question in comparison to other areas of the paper.

**Question 2** (*Average mark obtained - 41.8%*)

The question was poorly answered by all but a few candidates. Many students appeared totally confused as to the difference between the normal basis of accounting for VAT and the cash basis. Few answered the computational section of the question well while many candidates mixed up the rules with the annual accounting scheme. In addition far too many students thought that input VAT related to sales and Output VAT to purchases and that Output VAT could be reclaimed from suppliers.

**Question 3** *(Average mark obtained - 47.3%)*

Overall the Schedule D part of this question was reasonably well answered, but marks were often lost by:

- (i) Using the "marginal" corporation tax bands given in the information pack and then attempting to give further marginal relief through the application of the formula or else candidates attempting to deduct marginal relief from the Schedule D profits they had calculated and then carrying on with their calculation of Corporation Tax at the standard rate.
- (ii) Combining amounts being disallowed on the schedule D computations without explanation, making it difficult for the examiner to award marks if the candidate's answer was wrong.
- (iii) Poor layout and not adjusting the corporation bands to reflect the associated companies.

**Question 4** *(Average mark obtained - 61.9%)*

Just over 75% of candidates attempted this question, and many of the candidates answered the question to a very high standard. This question was divided into three sections on: - the part disposal of a capital asset, the disposal of a wasting chattel, and the disposal of business assets by a taxpayer who was entitled to entrepreneurial relief. Given that this was the first year that entrepreneurial relief was examinable the standard of answers obtained was encouraging.

The most common mistakes were failing to recognise that section 'b' related to the disposal of a wasting chattel, and as a result was exempt from capital gains tax.

**Question 5** *(Average mark obtained - 46.3%)*

This question was attempted by just around 2/3 of candidates sitting the examination; however as the average mark obtained shows candidates continue to struggle with the multiple-choice question. This may be because the answers are either right or wrong and no marks are obtainable for the steps in arriving at the answer. In addition the question often requires a broader knowledge of the syllabus than for the other questions that often are set on core areas that have been well rehearsed. In recent years it has been noticeable that a number of the better candidates have decided to avoid answering this question. Some candidates scored very well however generally candidates struggled to get more than five parts correct and overall students seemed to struggle more with parts 3,4 & 5 than with the other parts of this question.

**Question 6** *(Average mark obtained - 58.8%)*

Whilst this question was only attempted by just over 1/3 of the candidates sitting the exam the examiner was pleased to see that the capital allowances section of the question was well answered by most candidates. In addition candidates generally made a reasonable attempt at the second part of the question which required them to write a business letter setting out the tests necessary to qualify for the Construction Industry Scheme. Those who did not perform to their full potential in this question usually did so as a result of a poor layout in their answer to the capital allowances.

**Question 7** *(Average mark obtained - 42%)*

This question was a three part mixed question on National Insurance Contributions, Company Car benefits in kind and ethics. It proved to be the least popular of the optional questions and candidates struggled with all three parts. In part (a) on class 4 National Insurance Contributions few candidates realised that the maximum contributions payable were reduced as a result of the class 1 contributions suffered as an employee, the company car benefits question was also poorly answered with many candidates using an incorrect rate or failing to time apportion the benefits. The last part of the question required candidates to demonstrate in a practical situation what ethical requirements would be expected of members of Accounting Technicians Ireland. Few candidates mentioned the 'ethical guidelines', money laundering requirements, SOCA or 'tipping off'.