TAXATION

Diploma stage examination

12 June 2007

From 10.00am to 12.00noon
plus ten minutes reading time from 9.50am to 10.00am

Instructions to candidates

*There are **four** questions on this question paper*

*Answer **three** questions in total*

One** compulsory question from **Section A
Two** of the three questions from **Section B

*The question in Section A carries **40** marks*
*The questions in Section B carry each carry a total of **30** marks*

All workings should be shown. Where calculations are required using formulae, calculators may be used but steps in the workings must be shown. Calculations with no evidence of this (for example, using the scientific functions of calculators) will receive no credit. Programmable calculators are not permitted in the examinations room.

Formula sheets, Proforma booklets, statistical tables, graph paper and cash analysis paper are available from the invigilator, where applicable.

Where a question asks for a specific format or style, such as a letter, report or layout of accounts, marks will be awarded for presentation and written communication.

AT THE HEART OF
YOUR CAREER

SECTION A (Compulsory)

1

(a) Acme Ltd has the following results for the 15 months to 31 March 2007:

	£
Adjusted trading profits before deduction of capital allowances (note 1)	727,000
Income from property (note 2)	42,000
Gross Interest received on Government Securities (note 3)	30,000
Bank Deposit Interest:	
Received to 31 December 2006	7,450
Accrued to 31 March 2007	3,100
Capital Gains:	
Disposal on 30 November 2006	2,500
Disposal on 10 March 2007	4,000
Gift Aid Donation (note 4)	30,000

Notes

1. The written down value (WDV) of Acme's plant and machinery at 1 January 2006 was £227,000. Acme, which was a medium-sized company throughout 2006 and 2007, made a purchase of plant of £50,000 on 1 February 2007.

2. The property was let on 1 July 2006 under a 10 year lease agreement for a rental of £32,000, payable annually in advance. The figure shown above was received on 1 July 2006, and includes a one-off premium of £10,000.

3. The Government securities were purchased on 1 July 2006. Interest of £30,000 is payable on 30 June and 31 December each year.

4. The Gift Aid donation comprises two gifts: £20,000 given on 31 December 2006 and £10,000 given on 31 March 2007.

5. Acme has a chargeable loss brought forward at 1 January 2006 of £3,750.

6. In the year to 31 December 2005, Acme incurred a trading loss of £140,000 which was carried forward under s393(1) of ICTA 1988.

- **Requirement for question 1 (a)**

(i) Identify and briefly explain the ways in which a company's trading losses may be relieved, and the issues which will influence its choice of loss relief. *10*

(ii) Compute Acme's chargeable profits for the two accounting periods. *20*

(b) Zenith Plc acquired the following shares in Nadir plc:

Date	**No of Shares**	**Cost**	**RPI**
		£	
23 March 1981	5,000	5,000	
8 May 1984	45,000	67,500	88.97

The shares in Nadir plc were valued at £1.60 each on 31 March 1982 (RPI 79.44). RPI for April 1985 was 94.78. On 8 January 2007 (RPI 199.0) Zenith plc sold 50,000 shares for £310,000.

- **Requirement for question 1 (b)**

Compute Zenith's chargeable gain arising on the disposal in January 2007. *10*

(40)

SECTION B (Answer two from three questions)

2

(a) William, who is single and aged 45, is the marketing manager for Dorset Enterprises Ltd. He earns a gross salary of £32,500 per annum. He has also been given a loan by his employer at an interest rate of 3% - the amount outstanding on 6 April 2006 was £4,000, and he paid £2,000 back as a lump sum on 30 June 2006. The official rate of interest throughout the period was 5%. He pays an allowable professional subscription of £120 each year. He eats free of charge in a staff canteen which is open to all members of staff. His employer provides him with a parking space in a car park across the road from his office (an annual season ticket would cost £350), and a mobile phone. William's employer does not provide a company car, but does reimburse mileage at the rate of 30 pence per mile. In 2006/2007, and for the preceding two years, William drove 25,000 miles on business. He received net building society income of £3,000 and paid a gross charge of £150 during the year.

- **Requirement for question 2 (a)**

(i) Calculate and briefly explain William's tax code for 2006/2007. *8*

(ii) Explain briefly the treatment of benefits in kind for
(1) P11D employees
(2) lower paid employees *6*

(iii) William's employers are planning to lend him computer equipment costing £2,750 for his own private use. Assuming this loan is made on 5 April 2006, explain how it should be treated for tax purposes in:
(1) 2006/2007
(2) 2007/2008 if he purchases the computer on 4 April 2008 for £1,000 when its market value is £1,200 *6*

(b) Elizabeth, a taxpayer, has two different sources of income. She works part-time as an IT consultant for a small number of clients, on a project management basis. A separate contract is drawn up for each project, specifying the deadline, expected output and the fee to be paid. Elizabeth uses her own diagnostic software on her laptop when necessary. She reserves one day a week (Monday) for one particular client who likes her to be on the company premises between 8am and 4pm to answer computer help-line queries and troubleshoot problems. This client allows her to invoice for the day even when she is sick, and allows her to take five paid days off each year.

- **Requirement for question 2 (b)**

Discuss and apply the criteria which may be used to determine whether Elizabeth should be regarded as employed or self-employed. *10*

(30)

3

(a) Alice began trading on 1 January 2006. Her taxable turnover for her first 20 months of trading is as follows:

2006	£	2007	£
January	1,200	January	6,200
February	2,000	February	8,800
March	1,800	March	12,000
April	1,500	April	7,400
May	2,200	May	4,800
June	3,000	June	5,600
July	3,400	July	4,400
August	2,200	August	3,000
September	1,700		
October	6,800		
November	4,000		
December	6,100		

These figures include a self-supply of goods worth £2,500 in October 2006 and £1,800 relating to the sale of plant used in the business in February 2007.

- **Requirement for question 3 (a)**

(i) Explain, using an example in each case, the difference between zero-rated and exempt supplies. *6*

(ii) Using the information above, state and explain the date on which Alice must register for VAT. *6*

(b) Vijay, a taxable person, made the following supplies in the quarter to 31 December 2006:

	£
Standard-rated supplies (excluding VAT)	155,000
Zero-rated supplies	72,000
Exempt supplies	47,000

Vijay made a self-supply of £2,000, which is included in the total shown above for zero-rated supplies. The input tax Vijay suffered is attributed in the following way:

	£
Attributed to taxable supplies	9,750
Attributed to exempt supplies	6,205
Unattributed	10,000

- **Requirement for question 3 (b)**

(i) Explain, using an example in each case, the difference between a mixed supply and a composite supply, and state briefly how each should normally be dealt with. *4*

(ii) Explain how the amount of input tax which may be reclaimed by a partially exempt taxable person should normally be calculated. *6*

(iii) Compute the VAT provisionally payable to HMRC by Vijay for the quarter. *8*

(30)

4

Taxation allows the Government to intervene where market-based economies are deemed not to be working efficiently and effectively.

- **Requirement for question 4**

(a) Discuss the circumstances where market based economies do not work effectively and explain, with examples, how taxation can be used to intervene in such cases. *12*

(b) There are a number of ways of distinguishing between taxes. State and explain, with examples, three methods of distinguishing between taxes according to their economic nature. *12*

(c) A 'good' tax should possess certain characteristics. Two of these are 'equity' and 'efficiency'. Explain and illustrate what is meant by these **two** concepts in relation to taxation. *6*

(30)

SUMMARY OF TAX DATA

Corporation Tax

	Financial Year 2006	*Financial Year 2005*	*Financial Year 2004*
Full rate	30%	30%	30%
Small company rate	19%	19%	19%
Lower limit	£300,000	£300,000	£300,000
Upper limit	£1,500,000	£1,500,000	£1,500,000
Marginal relief fraction	11/400	11/400	11/400
Starting rate		0%	0%
Lower limit		£10,000	£10,000
Upper limit		£50,000	£50,000
Marginal relief fraction		19/400	19/400
Non-corporate distribution rate		19%	19%

Marginal relief formula: fraction x (M-P) x I/P

Capital Allowances

Writing down allowance (per annum):	
Plant and machinery	25%
Industrial buildings	4%
First year allowance on acquisitions of qualifying plant and machinery by qualifying companies:	
Acquired on or after 2 July 1998	40%
Acquired 1 April 2004 to 31 March 2005	50%
Acquired 1 April 2006 to 31 March 2007	50%

Income Tax

			2006/07	*2005/06*
Starting rate	10%	first	£2,150	2,090
Basic rate	22%	next	£31,150	30,310
Higher rate	40%	over	£33,300	32,400

	2006/07	*2005/06*
Personal allowance:		
Age 0 to 64	£5,035	£4,895
Age 65 to 74	£7,280	£7,090
Age 75 or over	£7,420	£7,220
Married couple's allowance:		
Age under 75 and born before 6 April 1935	£6,065	£5,905
Age 75 or over	£6,135	£5,975
Minimum amount	£2,350	£2,280
Income limit for age-related allowances	£20,100	£19,500

Car benefit

Emission rating	*Taxable percentage of list price*
Up to 140 g/km	15%
Each additional 5g/km	+ 1%
Diesel engine	+ 3%
Maximum charge	35%

Car fuel benefit

Figure to which appropriate percentage is applied so as to calculate car fuel benefit	£14,400

Official Rate of Interest
5%

Authorised mileage rates	*first 10,000 miles per year*	*miles in excess of 10,000*
Motor cars and vans	40p	25p
Motor cycles	24p	24p
Bicycles	20p	20p

Class 1 National Insurance Contributions

	2006/07	*2005/06*
Primary threshold (annual)	£5,035	£4,895
Secondary threshold (annual)	£5,035	£4,895
Upper earnings limit (annual)	£33,540	£32,760
Employee contribution rates:		
On earnings up to primary threshold	0%	0%
On remainder up to UEL (Not contracted out)	11%	11%
On remainder up to UEL (Contracted out)	9.4%	9.4%
On earnings above the UEL	1%	1%
Employer contribution rates:		
On earnings up to secondary threshold	0%	0%
On remainder up to UEL (Not contracted out)	12.8%	12.8%
On remainder up to UEL (Contracted out)	9.3%	9.3%
On earnings beyond UEL	12.8%	12.8%

Class 1A National Insurance Contributions

	2006/07	*2005/06*
Employer contribution rate	12.8%	12.8%

Value Added Tax

Standard rate (from 1 April 1991)		17.5%
Registration threshold (from 1 April 2006)		£61,000
Deregistration threshold (from 1 April 2006)		£59,000
Fuel quarterly scale charges (from 1 May 2006):		
VAT due per car:		
Petrol engines:	up to 1,400cc	£40.66
	up to 2,000cc	£51.53
	2,001cc or more	£75.66
Diesel engines:	up to 1,400cc	£38.72
	up to 2,000cc	£38.72
	2,001cc or more	£49.30