

**UNIVERSITY OF BOLTON**

**RAK ACADEMIC CENTRE**

**BA (HONS) ACCOUNTANCY**

**SEMESTER ONE EXAMINATION 2019/20**

**ADVANCED TAXATION**

**MODULE NO: ACC6002**

Date: Wednesday 15<sup>th</sup> January 2020

Time: 1.00pm – 4.00pm

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**INSTRUCTIONS TO CANDIDATES:**

There are **FIVE** questions on this paper.

SECTION A consists of **TWO** questions, answer **ALL** questions.

SECTION B consists of **THREE** questions, answer **ONLY TWO** questions.

Please refer to Tax tables for rates & allowances.

This is a closed book exam.

You must hand in the exam paper with your answer booklet.

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## SECTION A (Answer ALL Questions)

### Question 1

(a)

You work as a Tax senior for Smith and Co (Tax Advisors) and your client Jack would like CGT advice in relation to the disposal of his house.

On 30 June 2018 Jack sold his house for £307,500. The house which is located in Manchester was acquired by Jack on 01 January 2001 for £105,000. The property was used in the following manner throughout the period of ownership:

Months	Use of property
16	Occupied by Jack
18	Unoccupied – travelling in Malaysia
24	Unoccupied – working in USA
11	Occupied by Jack
30	Unoccupied – working in London
22	Unoccupied – travelling in Australia
26	Unoccupied – working in Newcastle
27	Occupied by Jack
7	Unoccupied – Working in Dubai
14	Unoccupied – travelling in India
15	Unoccupied – living with brother

Jack had **never** let out his house (in periods of absence) as he wanted it to remain in excellent condition in his absence. The property was always Jack's main residence throughout the period of ownership.

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### Question 1 continued

#### Required:

#### (b)

Another client of Smith & Co is Maria Khan who would like some advice on CGT in relation to her share disposal which she made on 31<sup>st</sup> January 2019 in relation to her shares in Ahmed Plc.

Maria had made the following acquisition of shares over a period of time prior to the disposal of shares:

Date	No. of Shares	Cost (£)
18 January 2009	2,000	8,400
19 June 2010	1,400	5,900
31 December 2016	2,400	11,240
11 August 2018	800	4,200

On 31 May 2017 Ahmed Plc made a rights issue of 1 for 4 at £7.00 per share and Maria decided to take up the offer.

Finally Maria did not acquire any shares in the next 30 days and she made no other disposals for CGT purposes for the tax year ended 05.04.2019.

Assume Maria is a higher rate taxpayer.

#### Required:

Calculate Maria's CGT payable and explain clearly how the share matching rules have been applied. **(10 marks)**

#### (c)

Peter is also a client of Smith & Co and would like some advice in relation to Entrepreneur's Relief (ER). On 1 January 2019, Peter sold his car dealership business (sole trader) and realized a chargeable gain of £375,000. Peter started the business in June 1996.

#### Required:

Critically appraise the conditions which must be satisfied for Peter to be able to use Entrepreneur's Relief (ER) and the benefits of using ER. **(10 marks)**

**(Total: 30 marks)**

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## Question 2

(a)

You work for Bridge and Co (Tax advisors) as a Tax manager and manage several clients in relation to various VAT matters.

One of your clients is Alex who is a sole trader who started his business on 1 September 2018. The business supplies fashion clothing to market stalls across wealthy market towns in Cheshire. Alex voluntarily registered for VAT when he commenced his business.

The sales revenue and purchases are summarised as follows:

Period (months)	Sales revenue £ (monthly basis)	Purchases £ (monthly basis)
September to December 2018	8,400	4,000
January to April 2019	11,000	6,000
May to August 2019	12,500	7,000

The above figures are stated exclusive of value added tax (VAT). Alex's sales are all standard rated and arise evenly over the month.

In the quarter to 30 November 2018 Alex's transactions included the following:

- Input VAT of £3,600 in relation to a car purchased for 100% private use by Alex's wife
- Input VAT of £325 in relation to client entertaining

Additionally Alex would like advice in relation bad debts incurred and the VAT implications of this for future reference.

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**Question 2 continued**

**Required:**

(i) Complete the VAT return for the three-month period ended 30 November 2018, showing how much VAT is payable. State when the VAT is payable to HMRC and any penalties which may arise if the VAT return is incorrect.

**(10 marks)**

(ii) Critically advise Alex in relation to bad debts and the VAT implications

**(6 marks)**

**(b)**

Additionally several other clients require VAT advice in relation to different matters which your firm Bridge and Co will be assisting with. The advice is to be given to different clients in relation to the following:

- Flat rate scheme
- Group VAT

**Required:**

(i) Critically appraise the flat rate scheme for VAT and the conditions in which it can be used **(7 marks)**

(ii) Critically appraise the consequences of registering for group VAT **(7 marks)**

**(Total: 30 marks)**

**END OF SECTION A**

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**SECTION B: TWO Questions ONLY to be attempted**

**Question 3**

**(a)**

You work as a Senior Tax manager at Javed & Co (Tax Advisors) and specialize in corporation taxation matters for groups of companies.

One of your clients is Harry Ltd who requires advice in relation to group tax matters. Harry Ltd owns 100% of the share capital of Lisa Ltd. The companies are both UK resident and prepare accounts to 31 March each year. The following are the most recent results for the year ended 31 March 2019:

	Harry Ltd (£)	Lisa Ltd (£)
<b>Trading profit(loss)</b>	200,000	(360,000)
<b>Chargeable gains</b>	10,000	150,000
<b>Gift Aid donations</b>	24,000	

**Required:**

Critically explain the ways in which the trading loss of Lisa Ltd can be relieved.

**(10 marks)**

**(b)**

Another client of Javed & Co would like advice in relation to group relief for a consortium as they are unsure as to whether this will be available and if the companies are classed as a consortium.

**Required:**

Critically explain the situation in which consortium companies arise and how losses can be relieved if a group is a consortium.

**(5 marks)**

**(c)** A tax junior who works for Javed & Co is unsure about the factors which should be considered.

**Required:**

Critically explain the factors which should be considered in order to use group relief effectively

**(5 marks)**

**(Total: 20 marks)**

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**Question 4**

**(a)**

Terry died on 13 July 2018, leaving an estate valued at £875,000. None of the transfers below made on his death were exempt from IHT. Terry made the following transfers during his lifetime:

	£
5 May 2010 Gift to relevant property trust (tax paid by Terry)	75,000
3 June 2011 Gift to daughter	145,000
9 August 2011 Gift to son	235,000
12 November 2012 Gift to relevant property trust (tax paid by trustees)	425,000

Terry was not married or in a civil partnership and was single at the time of his death.

His entire estate was left to his children.

Farhan's funeral expenses were £5,500.

**Required:**

Calculate the inheritance tax payable as a result of Terry's death with clear explanations and workings of IHT payable. **(15 marks)**

**(b)**

Evaluate the circumstances in which a taxpayer can use Agricultural Property Relief (APR) and the tax benefit of using APR. **(5 marks)**

**(Total: 20 marks)**

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**Question 5**

**(a)**

You work as Tax Senior in Cohen & Co and one of your clients Rosie has asked you for advice about the tax implications of changing her business medium from being a sole trader to operating as a Ltd company. Rosie's business is a cake shop which is experiencing rapid growth in the Greater Manchester area.

**Required:**

Critically appraise the factors that a taxpayer should consider when deciding to either operate as a sole trader OR as a Ltd company. Use examples to illustrate your answer.

**(10 marks)**

**(b)**

Additionally as Rosie is expanding her business if she changes her business medium to a Ltd company she will have her husband as a shareholder and other relatives may be part of the business as directors and/or shareholders. Hence she needs advise about close company rules as she is unsure what this means.

**Required:**

Critically explain to Rosie the factors which result in a company being classed as a close company.

**(6 marks)**

**(c)**

Another client of Cohen & co is Diamond Ltd which is an owner managed business and falls under the close company tax rules.

**Required:**

Critically advise Diamond Ltd about the tax rules on loans made to participators.

**(4 marks)**

**(Total: 20 marks)**

**END OF QUESTIONS**

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## Tax Tables

# Summary of Tax Data

## Income Tax

	2018-19	2017-18
<b>TAX RATES AND BANDS<sup>†</sup></b>		
Basic rate	20%	20%
Higher rate	40%	40%
Additional rate	45%	45%
Basic rate limit	£34,500	£33,500
Higher rate limit	£150,000	£150,000
<i>† Different tax rates and bands apply to the non-savings income of Scottish taxpayers (see below)</i>		
Starting rate for savings	0%	0%
Starting rate limit for savings	£5,000	£5,000
Personal savings allowance (basic rate taxpayer)	£1,000	£1,000
Personal savings allowance (higher rate taxpayer)	£500	£500
Dividend ordinary rate	7.5%	7.5%
Dividend upper rate	32.5%	32.5%
Dividend additional rate	38.1%	38.1%
Dividend allowance	£2,000	£5,000
<b>SCOTTISH TAX RATES AND BANDS<sup>‡</sup></b>		
Starter rate	19%	-
Basic rate	20%	20%
Intermediate rate	21%	-
Higher rate	41%	40%
Top rate	46%	45%
Starter rate limit	£2,000	-
Basic rate limit	£12,150	£31,500
Intermediate rate limit	£31,580	-
Higher rate limit	£150,000	£150,000

*‡ These tax rates and bands apply only to the non-savings income of Scottish taxpayers*

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## Tax Tables continued

### Summary of Tax Data

#### PERSONAL ALLOWANCES

	2018-19	2017-18
Personal allowance	£11,850	£11,500
Marriage allowance	£1,190	£1,150
Blind person's allowance	£2,390	£2,320
Married couple's allowance:		
Born before 6 April 1935	£8,695	£8,445
Minimum amount	£3,360	£3,260
Income limit for basic personal allowance	£100,000	£100,000
Income limit for married couple's allowance	£28,900	£28,000

#### CAR AND FUEL BENEFIT

Not exceeding 50g/km	13%	9%
51g/km to 75g/km	16%	13%
76g/km to 94g/km	19%	17%
95g/km	20%	18%
Each additional 5g/km	+1%	+1%
Maximum charge	37%	37%
Amount used in car fuel benefit calculation	£23,400	£22,600

#### PENSION SCHEMES

Annual allowance	£40,000	£40,000
Lifetime allowance	£1,030,000	£1,000,000

#### Capital Allowances

Writing Down Allowance (WDA)		
Main pool of plant and machinery	18%	18%
Special rate pool of plant and machinery	8%	8%
Annual Investment Allowance (AIA)		
AIA annual limit from 1 January 2016	£200,000	£200,000
AIA rate	100%	100%
First Year Allowance (FYA)		
Low emission cars	100%	100%
Zero-emission goods vehicles	100%	100%
Gas refuelling equipment	100%	100%
Charging points for electric vehicles	100%	100%
Energy saving or water efficient technology	100%	100%

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## Tax Tables continued

### Summary of Tax Data

#### National Insurance Contributions

	2018-19	2017-18
<b>CLASS 1</b>		
Lower earnings limit (weekly)	£116	£113
Primary threshold (weekly)	£162	£157
Upper earnings limit (weekly)	£892	£866
Secondary threshold (weekly)	£162	£157
Upper secondary threshold (weekly)	£892	£866
Employee contributions		
Rate on earnings between primary threshold and UEL	12%	12%
Rate on earnings beyond UEL	2%	2%
Employer contributions		
Rate on earnings beyond secondary threshold	13.8%	13.8%
<b>CLASS 1A</b>		
Rate	13.8%	13.8%
<b>CLASS 2</b>		
Weekly contribution	£2.95	£2.85
Small profits threshold	£6,205	£6,025
<b>CLASS 3</b>		
Weekly contribution	£14.65	£14.25
<b>CLASS 4</b>		
Lower profits limit	£8,424	£8,164
Upper profits limit	£46,350	£45,000
Rate on profits between lower and upper limit	9%	9%
Rate on profits beyond upper limit	2%	2%

#### Capital Gains Tax

	2018-19	2017-18
Standard rate <sup>†</sup>	10%	10%
Higher rate <sup>†</sup>	20%	20%
Entrepreneurs' relief rate	10%	10%
Entrepreneurs' relief lifetime limit	£10,000,000	£10,000,000
Annual exempt amount	£11,700	£11,300

<sup>†</sup> Taxable gains on the disposal of residential property are taxed at 18% and 28%

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## Tax Tables continued

### Summary of Tax Data

#### Corporation Tax

<i>Financial Year</i>	<i>FY2018</i>	<i>FY2017</i>	<i>FY2016</i>	<i>FY2015</i>
Main rate	19%	19%	20%	20%
Patent box (effective rate)	10%	10%	10%	10%
R&D SMEs payable credit	14.5%	14.5%	14.5%	14.5%
R&D expenditure credit†	12%	11%	11%	11%

† R&D expenditure credit 12% as from 1 January 2018

Note:

The main rate for FY2019 will be 19%.

#### Inheritance Tax

<i>Date of transfer</i>	<i>Nil rate band</i>	<i>Rate on life-time transfers</i>	<i>Rate on death</i>	<i>Lower rate</i>
6 April 2006 to 5 April 2007	0 - £285,000	20%	40%	-
6 April 2007 to 5 April 2008	0 - £300,000	20%	40%	-
6 April 2008 to 5 April 2009	0 - £312,000	20%	40%	-
6 April 2009 to 5 April 2012	0 - £325,000	20%	40%	-
6 April 2012 to 5 April 2019	0 - £325,000	20%	40%	36%

Note:

The residence nil rate band for 2018-19 is £125,000.

#### Value Added Tax

Standard rate	20%	(from 4 January 2011)
Reduced rate	5%	
Registration threshold†	£85,000	(from 1 April 2017)
Deregistration threshold†	£83,000	(from 1 April 2017)

† Thresholds frozen until April 2020

END OF PAPER