

**UNIVERSITY OF BOLTON**

**OFF CAMPUS DIVISION**

**WESTERN INTERNATIONAL COLLEGE**

**BA (HONS) ACCOUNTANCY**

**SEMESTER 1 EXAMINATIONS 2021/2022**

**ADVANCED TAXATION**

**MODULE NO: ACC6002**

Date: Wednesday 12<sup>th</sup> January 2022

Time: 13:00 – 16:00

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**INSTRUCTIONS TO CANDIDATES:**

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

Section A - Answer **BOTH** questions

Section B consists of **THREE** questions. Answer **ONLY TWO** questions.

This is a closed book examination. Tax tables are provided.

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

Use of calculators is allowed

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**SECTION A – Answer ALL questions in this section**

**Question 1**

**Part (a)**

On 20 March 2021, Purgus sold an acre of land for £130,000. He had originally purchased four acres of land on 13 April 2007 for £210,000.

During January 2019, Purgus spent £22,800 clearing and levelling all four acres of land. The market value of the unsold three acres of land as at 20 March 2021 was £350,000. Purgus incurred legal fees of £3,200 in connection with the disposal.

**Required:**

**Calculate the capital gain on the disposal of the land.**

**(5 Marks)**

**Part (b)**

Laurence acquired the following shares in Elastic Ltd:

| <b>Date</b>      | <b>No.</b> | <b>Cost</b> |
|------------------|------------|-------------|
| 12 October 1989  | 500        | 1,800       |
| 23 March 1990    | 2,000      | 7,000       |
| 29 June 1998     | 1,000      | 5,000       |
| 17 November 2003 | 3,000      | 15,000      |

On 1 June 2007, the company made a 1 for 5 rights issue at £7 per share.

Laurence took up all his rights.

On 21 January 2021, Laurence sold 7,000 shares in Elastic Ltd for £10 per share.

Laurence did not acquire any shares in the next 30 days and he made no other disposals for CGT purposes for the tax year ended 05<sup>th</sup> April 2021.

Laurence is a higher rate taxpayer.

**Section A Question 1 continues over the page....**

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**Section A Question 1 continued....**

**Required:**

**Calculate Laurence’s CGT payable and explain clearly how the share matching rules have been applied.**

**(10 Marks)**

**Part (c)**

Sarah bought a house in London on 1 January 1996, sold it on 31 December 2020, and made a gain of £341,200.

|                                    |   |
|------------------------------------|---|
| She occupied the house as follows: |   |
| 1 January 1996 – 30 June 1998      | Lived in house                            |
| 1 July 1998 – 31 December 1998     | Backpacking around Thailand               |
| 1 January 1999 – 31 December 2000  | Lived in the house                        |
| 1 January 2001 – 30 September 2006 | Sent by her employer to work in Newcastle |
| 1 October 2006 – 31 December 2006  | On an “around the world” cruise           |
| 1 January 2007 – 31 December 2016  | Lived in the house                        |
| 1 January 2017 – 31 December 2020  | Moved in with boyfriend                   |

Sarah has never let out her house and the property was always her main residence throughout the period of ownership.

**Required:**

**Calculate the chargeable gain arising on the sale of the property for the tax year 2020/21. You should also state with reasons the periods in which the property is Sarah’s actual or deemed PPR for CGT purposes.**

**(10 Marks)**

**Part (d)**

**Critically evaluate the conditions which must be satisfied to claim Business Asset Disposal Relief (BADR) and its benefits.**

**(5 Marks)**

**Total 30 Marks**

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### Section A continued....

#### Question 2

Ubu Ltd is a company selling both standard-rated and zero-rated supplies.

For the quarter to 30 September 2020, the following information is given.

All figures exclude VAT unless otherwise stated.

| Note                               | £      | £         |
|------------------------------------|--------|-----------|
| Sales (standard-rated)             |        | 151,950   |
| Sales (zero-rated)                 |        | 131,250   |
|                                    |        | <hr/>     |
|                                    |        | 283,200   |
| Purchases (Note 1)                 | 70,080 |           |
| Wages                              | 33,920 |           |
| Customer entertaining (Note 2)     | 5,520  |           |
| Staff entertaining                 | 3,720  |           |
| Impaired debt written off (Note 3) | 1,260  |           |
| Other expenses (Note 1 & 4)        | 31,580 |           |
|                                    |        | <hr/>     |
|                                    |        | (146,080) |
|                                    |        | <hr/>     |
| Profit                             |        | 137,120   |
|                                    |        | <hr/>     |

Additional notes:

- (1) All purchases and other expenses are standard-rated for VAT.
- (2) Customer entertaining relates to UK customers.
- (3) The impaired debt was written off in September 2020. Payment for the original standard rated sales was due in January 2020.
- (4) Other expenses include an amount of £3,590 in respect of fuel for the director's BMW. The director does not reimburse any of the cost of the fuel for private mileage and, based on its level of CO2 emissions, the appropriate (VAT-inclusive) scale charge for his car for the quarter is £650.
- (5) Gifts of inventory were made to a customer in the period – the items gifted cost £2,400 and had a current replacement cost of £3,360. (VAT-inclusive amounts).
- (6) A sales invoice for £3,000 excluding VAT had been omitted in error from the VAT return for the quarter to 30 September 2020.
- (7) During the quarter ended 30 September 2020, the director purchased a car for £15,000, which is used by his sales manager for private and business use and a machine for £20,000. All figures are VAT inclusive.

**Section A Question 2 continues over the page....**

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**Section A Question 2 continued....**

**Required:**

- a) Calculate the VAT payable for the quarter ended 30 September 2020.  
(18 Marks)
- b) Critically advise the director of Ubu Ltd in relation to bad debts and its VAT implications.  
(4 Marks)
- c) Critically appraise the flat rate scheme for VAT and registering for group VAT.  
(8 Marks)

**Total 30 Marks**

**END OF SECTION A**

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**SECTION B – Answer TWO QUESTIONS ONLY from this section**

**Question 3**

Andrea died on 10 July 2020 and she left an estate with a total value of £950,000. None of the transfers made in her death were exempt from IHT. The following transfers were made during her lifetime:

|  | £       |
|--|---------|
| 5 May 2012 - Gift to relevant property trust (tax paid by Andrea)          | 95,000  |
| 5 July 2013 -Gift to daughter  | 260,000 |
| 9 August 2013-Gift to son  | 145,000 |
| 12 November 2014-Gift to relevant property trust<br>(tax paid by trustees) | 355,000 |

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

Her entire estate was left to her children.

Andrea's funeral expenses were £8,500.

**Required:**

- (a) Calculate the inheritance tax payable as a result of Andrea's death. Clearly show all your workings and explanations of IHT payable. (15 Marks)
- (b) Evaluate the circumstances in which a taxpayer can use Business Property Relief (BPR) and Agricultural Property Relief (APR). (5 Marks)

**Total 20 Marks**

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**Section B continued....**

**Question 4**

Canterbury sold one of his factories on 30 July 2020 for £900,000. The factory had been purchased in September 1987 for £300,000.

In March 2021, Canterbury purchased another factory for £700,000 and claimed rollover relief on the gain on the factory sold in July 2020.

**Required:**

- a) **Calculate the chargeable gain on the sale of the first factory, the amount of any rollover relief available and the base cost of the second factory.**  
**(8 marks)**

Annie made the following disposals in the tax year 2020/21.

- Sold a necklace for £36,000 on 1 March 2021. The necklace had been given to her by her husband on 6 April 2015 when its market value was £20,000. Annie's husband had purchased the necklace for £8,000 on 1 June 2004.
- Disposed of her unincorporated business in March 2021 realising chargeable gains of £2,532,000. Annie had started the business in 2009.

Annie has capital losses brought forward from the tax year 2019/20 of £8,000. She has taxable income of £14,100 in the tax year 2020/21.

**Required:**

- b) **Calculate Annie's capital gains tax liability for the tax year 2020/21, assuming she claims Business Asset Disposal (BADR) relief where available.**

**(12 marks)**

**Total 20 marks**

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**Section B continued....**

**Question 5**

You work as a Tax Senior in Indigo & Co and one of your clients, Rina needs advice on few areas of taxation. She wants to change her business medium from a sole trader to a Ltd Company. She has a catering business which has expanded over the last few years.

**Required:**

- a) **Critically evaluate the various factors that Rina should consider when deciding to continue operating as a sole trader or change to a Ltd Company. Use examples to illustrate your answer.**

**(14 Marks)**

Additionally, Rina wants to have her husband and few other relatives to be part of the business as directors and/or shareholders. Therefore, she needs advice about close company rules as she is unsure what this means.

**Required:**

- b) **Critically explain to Rina the factors which classify a company as a close company.**

**(6 Marks)**

**Total 20 Marks**

**END OF QUESTIONS**

**Summary of data tax over the page....**

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## Summary of Tax Data

### Income Tax

|  | 2020-21  | 2019-20  |
|--|----------|----------|
| <b>TAX RATES AND BANDS<sup>†</sup></b> |          |          |
| Basic rate                             | 20%      | 20%      |
| Higher rate                            | 40%      | 40%      |
| Additional rate                        | 45%      | 45%      |
| Basic rate limit                       | £37,500  | £37,500  |
| Higher rate limit                      | £150,000 | £150,000 |

<sup>†</sup> Different tax rates and bands apply to the non-savings income of Scottish taxpayers (see below)

|   |        |        |
|---|--------|--------|
| 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 | £2,000 |

### SCOTTISH TAX RATES AND BANDS<sup>‡</sup>

|                         |          |          |
|-------------------------|----------|----------|
| Starter rate            | 19%      | 19%      |
| Basic rate              | 20%      | 20%      |
| Intermediate rate       | 21%      | 21%      |
| Higher rate             | 41%      | 41%      |
| Top rate                | 46%      | 46%      |
| Starter rate limit      | £2,085   | £2,049   |
| Basic rate limit        | £12,658  | £12,444  |
| Intermediate rate limit | £30,930  | £30,930  |
| Higher rate limit       | £150,000 | £150,000 |

<sup>‡</sup> These tax rates and bands apply only to the non-savings income of Scottish taxpayers

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**PERSONAL ALLOWANCES**

|   | 2020-21  | 2019-20  |
|---|----------|----------|
| Personal allowance                          | £12,500  | £12,500  |
| Marriage allowance                          | £1,250   | £1,250   |
| Blind person's allowance                    | £2,500   | £2,450   |
| Married couple's allowance:                 |          |          |
| Born before 6 April 1935                    | £9,075   | £8,915   |
| Minimum amount                              | £3,510   | £3,450   |
| Income limit for basic personal allowance   | £100,000 | £100,000 |
| Income limit for married couple's allowance | £30,200  | £29,600  |

**CAR AND FUEL BENEFIT**

|   |         |         |
|---|---------|---------|
| Zero emissions                              | 0%      | 16%     |
| *1-50 g/km (depending upon electric range)  | 2%-14%  | 16%     |
| *51g/km to 54g/km                           | 15%     | -       |
| *55g/km to 59g/km                           | 16%     | -       |
| *60g/km to 64g/km                           | 17%     | -       |
| *65g/km to 69g/km                           | 18%     | -       |
| *70g/km to 74g/km                           | 19%     | -       |
| *75g/km                                     | 20%     | -       |
| 51g/km to 75g/km                            | -       | 19%     |
| 76g/km to 94g/km                            | -       | 22%     |
| 95g/km                                      | -       | 23%     |
| Each additional 5g/km                       | +1%     | +1%     |
| Maximum charge                              | 37%     | 37%     |
| Amount used in car fuel benefit calculation | £24,500 | £24,100 |

\* These percentages 2% lower in 2020-21 if car registered on or after 6 April 2020

**CAPITAL ALLOWANCES**

|   |          |          |
|---|----------|----------|
| Writing Down Allowance (WDA)                      |          |          |
| Main pool of plant and machinery                  | 18%      | 18%      |
| Special rate pool of plant and machinery          | 6%       | 6%       |
| Annual Investment Allowance (AIA)                 | 100%     | 100%     |
| AIA annual limit from 1 January 2016 <sup>†</sup> | £200,000 | £200,000 |
| First Year Allowances (FYAs)                      | 100%     | 100%     |
| Structures and Buildings Allowances (SBAs)        | 3%       | 2%       |

<sup>†</sup> AIA annual limit temporarily raised to £1m between 1 January 2019 and 31 December 2020

**PENSION SCHEMES**

|                    |            |            |
|--------------------|------------|------------|
| Annual allowance   | £40,000    | £40,000    |
| Lifetime allowance | £1,073,100 | £1,055,000 |

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### National Insurance Contributions

|  | 2020-21 | 2019-20 |
|--|---------|---------|
| <b>CLASS 1</b>                                     |         |         |
| Lower earnings limit (weekly)                      | £120    | £118    |
| Primary threshold (weekly)                         | £183    | £166    |
| Upper earnings limit (weekly)                      | £962    | £962    |
| Secondary threshold (weekly)                       | £169    | £166    |
| Upper secondary threshold (weekly)                 | £962    | £962    |
| 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%   |
| Employment allowance                               | £4,000  | £3,000  |
| <b>CLASS 1A</b>                                    |         |         |
| Rate   | 13.8%   | 13.8%   |
| <b>CLASS 2</b>                                     |         |         |
| Weekly contribution                                | £3.05   | £3.00   |
| Small profits threshold                            | £6,475  | £6,365  |
| <b>CLASS 3</b>                                     |         |         |
| Weekly contribution                                | £15.30  | £15.00  |
| <b>CLASS 4</b>                                     |         |         |
| Lower profits limit                                | £9,500  | £8,632  |
| Upper profits limit                                | £50,000 | £50,000 |
| Rate on profits between lower and upper limit      | 9%      | 9%      |
| Rate on profits beyond upper limit                 | 2%      | 2%      |

### Capital Gains Tax

|   | 2020-21    | 2019-20     |
|---|------------|-------------|
| Standard rate <sup>†</sup>                    | 10%        | 10%         |
| Higher rate <sup>†</sup>                      | 20%        | 20%         |
| Business asset disposal relief rate           | 10%        | 10%         |
| Business asset disposal relief lifetime limit | £1,000,000 | £10,000,000 |
| Annual exempt amount                          | £12,300    | £12,000     |

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

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### Corporation Tax

| <i>Financial Year</i>       | <i>FY2020</i> | <i>FY2019</i> | <i>FY2018</i> | <i>FY2017</i> | <i>FY2016</i> |
|-----------------------------|---------------|---------------|---------------|---------------|---------------|
| Main rate                   | 19%           | 19%           | 19%           | 19%           | 20%           |
| Patent box (effective rate) | 10%           | 10%           | 10%           | 10%           | 10%           |
| R&D SMEs payable credit     | 14.5%         | 14.5%         | 14.5%         | 14.5%         | 14.5%         |
| R&D expenditure credit      | 13%           | 12%           | 12%           | 11%           | 11%           |

*Note:*

The main rate for FY2021 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 2021 | 0 - £325,000         | 20%                                | 40%                  | 36%               |

*Note:*

The residence nil rate band for 2020-21 is £175,000.

### Value Added Tax

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

<sup>†</sup> *Thresholds frozen until April 2022*



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