ACCA P6 UK Mock Exam Tuesday 15th August 2017

Finance ACT 2016

Please attempt this mock exam under exam conditions in 3 hours and 15 minutes and send scanned answers to admin@accountancytube.com by deadline which is 24 hours after you receive this mock. You will receive your results within a week's time.

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AccountancyTube

SUPPLEMENTARY INSTRUCTIONS

1. You should assume that the tax rates and allowances for the tax year 2016/17 and for the financial year to 31 March 2017 will continue to apply for the foreseeable future unless you are instructed otherwise.

2. Calculations and workings need only be made to the nearest £.

3. All apportionments should be made to the nearest month.

4. All workings should be shown.

TAX RATES AND ALLOWANCES

The following tax rates and allowances are to be used in answering the questions.

Income tax

	Normal rates	Dividend rates
Basic rate £1 – £32,000	20%	7·5%
Higher rate £32,001 to £150,000	40%	32·5%
Additional rate £150,001 and over	45%	38·1%

Savings income nil rate band – Basic rate taxpayers	£1,000
– Higher rate taxpayers	£500
Dividend nil rate band	£5,000

A starting rate of 0% applies to savings income where it falls within the first £5,000 of taxable income.

Personal allowance

Personal allowance	£11,000
Transferable amount	£1,100
Income limit	£100,000

Residence status

Days in UK	**Previously resident**	**Not previously**
resident Less than 16	Automatically not resident	Automatically
not resident 16 to 45	Resident if 4 UK ties (or more)	Automatically

not resident 46 to 90 Resident if 3 UK ties (or more) Resident if 4 UK ties

91 to 120 Resident if 2 UK ties (or more) Resident if 3 UK ties (or more) 121 to 182 Resident if 1 UK tie (or more) Resident if 2 UK ties (or more) 183 or more Automatically resident Automatically resident

Remittance basis charge

UK resident for

Seven out of the last nine years	£30,000
12 out of the last 14 years	£60,000
17 out of the last 20 years	£90,000

Child benefit income tax charge

Where income is between £50,000 and £60,000, the charge is 1% of the amount of child benefit received for every £100 of income over £50,000.

Car benefit percentage

The relevant base level of CO2 emissions is 95 grams per kilometre.

The percentage rates applying to petrol cars with CO2 emissions up to this level are:

50 grams per kilometre or less	7%
51 grams to 75 grams per kilometer	11%
76 grams to 94 grams per kilometre	15%
95 grams per kilometre	16%

Car fuel benefit

The base figure for calculating the car fuel benefit is £22,200.

Individual savings accounts

(ISAs) The overall investment limit is £15,240.

Pension scheme limits

Annual allowance – 2014/15 to 2016/17	£40,000
– 2013/14	£50,000
Minimum allowance	£10,000
Threshold income limit	£110,000
Income limit	£150,000
Lifetime allowance	£1,000,000

The maximum contribution that can qualify for tax relief without any earnings is £3,600.

Authorised mileage allowances: cars

Up to 10,000 miles	45p
Over 10,000 miles	25p

Capital allowances: rates of allowance

Plant and machinery

Main pool	18%
Special rate pool	8%

Motor cars

New cars with CO_2 emissions up to 75 grams per kilometre	100%
CO_2 emissions between 76 and 130 grams per kilometre	18%
CO_2 emissions over 130 grams per kilometre	8%

Annual investment allowance

Rate of allowance	100%
Expenditure limit	£200,000

Cap on income tax reliefs

Unless otherwise restricted, reliefs are capped at the higher of £50,000 or 25% of income.

Corporation tax

Rate of tax	20%
Profit threshold	£1,500,000

Patent box – deduction from net patent profit

Net patent profit x ((main rate – 10%)/main rate)

Value added tax (VAT)

Standard rate	20%
Registration limit	£83,000
Deregistration limit	£81,000

Inheritance tax: nil rate bands and tax rates

£ 6 April 2016 to 5 April 2017	325,000
6 April 2015 to 5 April 2016	325,000
6 April 2014 to 5 April 2015	325,000
6 April 2013 to 5 April 2014	325,000
6 April 2012 to 5 April 2013	325,000
6 April 2011 to 5 April 2012	325,000
6 April 2010 to 5 April 2011	325,000
6 April 2009 to 5 April 2010	325,000
6 April 2008 to 5 April 2009	312,000
6 April 2007 to 5 April 2008	300,000
6 April 2006 to 5 April 2007	285,000
6 April 2005 to 5 April 2006	275,000
6 April 2004 to 5 April 2005	263,000
6 April 2003 to 5 April 2004	255,000
6 April 2002 to 5 April 2003	250,000

Rate of tax on excess over nil rate band –Lifetime rate 20%

– Death rate 40%

Inheritance tax: taper relief

Years before death	**Percentage reduction**
More than 3 but less than 4 years	20%

More than 4 but less than 5 years	40%
More than 5 but less than 6 years	60%
More than 6 but less than 7 years	80%

Capital Gains Tax

	Normal rates	Residential property
Lower rate	10%	18%
Higher rate	20%	28%

Annual exempt amount	£11,100
Entrepreneurs' relief – Lifetime limit	£10,000,000
– Rate of tax	10%

National insurance contributions

Class 1 Employee	£1 – £8,060 per year	Nil
	£8,061 – £43,000 per year	12%
	£43,001 and above per year	12%
Class 1 Employer	£1 – £8,112 per year	Nil
	£8,113 and above per year	13·8%
Employment allowance		£3,000
Class 1A		13·8%
Class 2	£2·80 per week	
	Small profits threshold	£5,965
Class 4	£1 – £8,060 per year	Nil
£8,061 – £43,000 per year		9%
£43,001 and above per year		2%

Rates of interest (assumed)

Official rate of interest	3%
Rate of interest on underpaid tax	3%
Rate of interest on overpaid tax	0·5%

Stamp duty land tax

Non-residential properties

£150,000 or less	0%
£150,001 – £250,000	2%
£250,001 and above	5%

Residential properties (note)

£125,000 or less	0%
£125,001 – £250,000	2%
£250,001 – £925,000	5%
£925,001 – £1,500,000	10%
£1,500,001 and above	12%

Note: These rates are increased by 3% in certain circumstances including the purchase of second homes and buy-to-let properties.

Stamp duty

Shares	0·5%

Section A – BOTH questions are compulsory and MUST be attempted

1

Your manager has received schedules of information from Ray and Shanira in connection with their personal tax affairs. These schedules and an extract from an email from your manager are set out below.

Schedule of information from Ray – dated 8 June 2017

I am resident and domiciled in the UK.
Shanira and I are getting married on 17 September 2017.

Ray – unincorporated business

I was employed part-time until 31 March 2017. The annual salary in respect of my part-time job was £15,000.
I receive company loan stock interest (net) of £3,000 and cash dividends of £3,800 each year. The whole of my income tax liability has always been settled via tax deducted at source.
I began trading on 1 June 2017. I purchased a computer on 3 June 2017, which is used both in the business and personally. I am not registered for the purposes of value added tax (VAT).
You have advised me that my taxable trading profits have been calculated using the accruals basis, rather than the cash basis, and the budgeted taxable trading profits of the business are:

Eight months ending 31 January 2018	£35,000
Year ending 31 January 2019	£66,000

You have already informed me that my taxable trading profit based on these budgeted profits, and my income tax liability in respect of all of my income will be:

Tax year	**Taxable trading profit Income**	**tax liability**
2017/18	£46,000	£8,900
2018/19	£66,000	£16,900

What tax payments will I be required to make between 1 July 2017 and 30 September 2019?

Schedule of information from Shanira – dated 8 June 2017

I am resident and domiciled in the UK.
Ray and I are getting married on 17 September 2017.

Gifts from Shanira to Ray

On 1 February 2017, I gave Ray a house situated in the country of Heliosa. We have only ever used this house for our holidays. The house was valued at £360,000 at the time of this gift. I purchased the house on 1 September 1999 for £280,000.
I will make the following further gifts to Ray between now and the end of the calendar year 2017:

- **Painting**

I purchased this painting at auction for £14,900 on 1 March 2012. It is a painting which we both love and would never sell. However, I obviously paid too much for it, as its current market value is only £7,000.

- **Shares in Solaris plc**

I will give Ray the whole of my holding of 7,400 ordinary shares in Solaris plc. The current market value is £9.20 per share.

I acquired these shares on 1 October 2014 when Solaris plc purchased the whole of the ordinary share capital of Beem plc. This takeover was a genuine commercial transaction.
At the time of the takeover:

- I owned 3,700 ordinary shares in Beem plc, which I had purchased on 1 June 2008 for £12,960.
- In addition to the shares in Solaris plc, I also received £14,800 in cash from Solaris plc.
- An ordinary share in Solaris plc was worth £8.40 on 1 October 2014.

Extract from an email from your manager – dated 9 June 2017

Additional information in relation to Shanira

- Shanira is a higher rate taxpayer.
- The gift of the house to Ray on 1 February 2017 was Shanira's first lifetime gift.
- You should use the current market values of the painting and the shares in Solaris plc in order to calculate the chargeable gains arising on these gifts.
- Neither gift relief nor entrepreneurs' relief will be available in respect of the proposed gift of the shares in Solaris plc.
- Shanira has not made any other chargeable disposals since 5 April 2016.
- There is capital gains tax in the country of Heliosa but no inheritance tax.
- There is no double tax treaty between Heliosa and the UK.

Please prepare a memorandum for the client files which addresses the following issues:

(a) Ray – unincorporated business
(i)> Calculations of the income tax and national insurance contribution payments to be made between 1 July 2017 and 30 September 2019 and the dates on which they will be payable.
>Ray has told me that he does not intend to withdraw all of the profits of the business. Instead, he will either increase his inventory levels or acquire additional equipment, and he has asked how this will affect his taxable income.

(ii) >Ray is incurring input tax and is considering registering voluntarily for VAT. Set out the information we need in order to advise him on whether or not voluntary registration is possible and/or financially beneficial and explain why the information is needed.
>An explanation of whether or not Ray can recover the input tax in respect of the computer purchased on 3 June 2017 if he registers for VAT.

(b) Gifts from Shanira to Ray
(i) >A calculation of the capital gains tax payable in respect of the gift of the house in Heliosa based on the currently available information, together with any further information required to finalise the liability, and the due date of payment.
>An explanation, with supporting calculations, of when the further gifts should be made to Ray. The objective here is to maximise Ray's capital gains tax base cost without creating a capital gains tax liability for Shanira. In order to achieve this objective, you should consider dividing the proposed gift of the shares into two gifts to be given on different days.
(ii) >The maximum possible inheritance tax liability which could arise in respect of the proposed gifts to Ray of the painting and the shares, if Shanira were to follow our advice in respect of their timing, together with the circumstances in which this liability would occur.
Tax Manager

Required
Prepare the memorandum as requested in the email from your manager. The following marks are available:

(a) **Ray – unincorporated business.**
(i) Income tax and national insurance contribution payments, and the level of his taxable income. **(11marks)**
(ii) Value added tax (VAT) **(5 marks)**

(b) **Gifts from Shanira to Ray**
(i) Capital gains tax **(10 marks)**
(ii) Inheritance tax **(5 marks)**

Professional marks will be awarded for the approach taken to problem solving, the clarity of the explanations and calculations, the effectiveness with which the information is communicated and the overall presentation. **(4 marks)**
(Total = 35 marks)

You should assume that the tax rates and allowances of the tax year 2016/17 will continue to apply for the foreseeable future.

2

An extract from an email from your manager is set out below.

I had a telephone conversation with Daniel, the managing director of Saturn Ltd, first thing this morning. We discussed the anticipated results of the Saturn Ltd group of companies and the proposed acquisition of a majority holding in Tethys Ltd. All the relevant details are included in the attached memorandum.
I need the following:
(i) A memorandum that I can use to prepare for my telephone call to Daniel. I realise that he did not give me all of the information we need so please identify any additional information that you think could have an effect on our advice.
(ii) A summary of the information we need and any action we should take before agreeing to become tax advisers to the Saturn Ltd group.

Tax manager

The memorandum attached to the email is set out below.

To: Internal filing
From: Tax manager
Date: 2 June 2017
Subject: Saturn Ltd group of companies
This memorandum sets out the matters discussed with Daniel, the managing director of Saturn Ltd, earlier today.
Group structure
Saturn Ltd has three wholly-owned subsidiaries: Dione Ltd, Rhea Ltd and Titan Inc. Titan Inc trades in and is resident in the country of Galactica. The other three group companies are resident in the UK. Saturn Ltd has owned all three subsidiary companies for many years.
Budgeted results for the year ending 30 June 2017
It is estimated that Dione Ltd will make a tax adjusted trading loss of £187,000 in the year ending 30 June 2017; it will have no other income or capital gains in the period. The budgeted taxable total profits of the other companies in the group are set out below.

	£
Saturn Ltd	385,000
Rhea Ltd	90,000
Titan Inc.	265,000

Rhea Ltd is expected to make a trading loss of £(200,000) in the year ending 30 June 2018 and will have no other income or gains, Dione Ltd is expected to make minimal profits in that year.
Proposed acquisition of 65% of Tethys Ltd
On 1 August 2017, Saturn Ltd will purchase 65% of the ordinary share capital of Tethys Ltd for £235,000 from the personal representatives of George Jetson. The whole of the balance of the company's share capital is owned either by Edith Clanger or by her family company, Clangers Ltd; Daniel cannot remember which.

It is anticipated that Tethys Ltd will make a tax adjusted trading loss of approximately £80,000 in the year ending 31 December 2017.
In early 2018, Tethys Ltd will sell its manufacturing premises for £240,000 and move to a rented factory. The premises were acquired new for £112,000 in 2009 and immediately brought into trade use. We agreed that the indexation factor on the disposal can be assumed to be 27%.

Information requested by Daniel
(i) The best use of the loss of Dione Ltd, and the amount of tax that can be saved.

(ii) The amount of the trading loss of Tethys Ltd for the year ending 31 December 2017 that can be used by Saturn Ltd and the ability of Tethys Ltd to use this loss in the future.
(iii) In respect of the sale of the manufacturing premises:
– Whether or not Tethys Ltd should charge value added tax (VAT) on the sale of the property
– The taxable profit arising in respect of the sale
– The amount of the gain that could be rolled over if Tethys Ltd or any of the other Saturn Ltd group companies acquired assets costing £200,000, the types of asset that would have to be purchased and the period during which the assets would need to be acquired
(iv) Any stamp taxes payable by the Saturn Ltd group in respect of the proposed transactions.

Tax manager

Required
(a) Prepare the memorandum requested by your manager. The memorandum should include explanations together with supporting calculations and should identify any further information that you think is required. The following marks are available for the four components of the memorandum:
(i) The best use of the loss of Dione Ltd; **(3marks)**
(ii) The use of the trading loss of Tethys Ltd for the year ending 31 December 2017; **(6 marks)**
(iii) Advice in connection with the sale of the manufacturing premises by Tethys Ltd; **(7 marks)**
(iv) The stamp taxes payable by the Saturn Ltd group. **(2 marks)**
Additional marks will be awarded for the appropriateness of the format and presentation of the memorandum and the effectiveness with which the information is communicated. **(2 marks)**
(b) Prepare a summary of the information needed to satisfy our obligations under the money laundering legislation and any action that should be taken before agreeing to become tax advisers to the Saturn Ltd group. **(5 marks)**
(Total = 25 marks)

3

Jordi is a director and shareholder of Traiste Ltd. He has asked for your advice in connection with the forthcoming redundancy of an employee, the sale of shares in Traiste Ltd by his sister, Kat, and the payment implications for Traiste Ltd of alternative ways for Jordi to extract profits from the company.

Traiste Ltd:

– Is a UK resident unquoted trading company.

– Has two shareholders, Jordi and Kat, who each own 50% of the 1,000 £1 shares in issue. **Traiste Ltd – proposed redundancy package for an employee:**

– An employee, Esta, will be made redundant on 30 June 2017.

– Esta will receive statutory redundancy pay of £12,000 and an ex-gratia payment of £36,000 from Traiste Ltd.

– Traiste Ltd will continue to lease a motor car for Esta's personal use until 31 December 2017, although she has no contractual entitlement to this. – The monthly lease payments are £420.

– The motor car has CO2 emissions of 178 grams per kilometre and is petrol powered.

– The motor car is currently worth £10,300. Its list price when new was £18,400.

Kat:

– Is resident and domiciled in the UK.

– Is 58 years old. –

Is a director and shareholder of Traiste Ltd.

– Will receive employment income of £34,000 from Traiste Ltd and dividends from other UK companies of £4,000 in the tax year 2017/18.

– Has already used her annual exempt amount for capital gains tax purposes for the tax year 2017/18.

Kat – proposed sale of shares:

– Kat subscribed for her 500 shares in Traiste Ltd at par on the incorporation of the company on 1 March 2013.

– She wishes to sell all of her shares before the end of 2017, and retire from the company.

– Kat's brother, Jordi, has offered to buy these shares for £47 each. He is not prepared to sign any tax election in relation to this offer.

– Alternatively, Traiste Ltd will buy these shares for their market value of £52 each.

Jordi:

– Is resident and domiciled in the UK.

– Is 53 years old.

– Is a director and shareholder of Traiste Ltd.

– Is paid a gross annual salary of £45,000 by Traiste Ltd.

– Wishes to extract an additional cash sum of £30,000, net of all taxes, from Traiste Ltd, to be paid on 31 March 2018.

– The additional sum will be extracted as either a bonus or a dividend.

– Will not receive any other taxable income in the tax year 2017/18.

Required: (a) (i) Explain briefly the income tax implications for Esta in respect of each of the three components of the proposed redundancy package. Note: Calculations are NOT required for this part.

(3 marks)

(ii) Calculate the corporation tax deductions available to Traiste Ltd in respect of the redundancy package provided to Esta. (4 marks)

(b) Explain, with reference to the after-tax proceeds in each case, why Kat should accept Jordi's offer to buy her shares in Traiste Ltd, rather than sell her shares back to Traiste Ltd. (8 marks)

(c) Explain, with supporting calculations, the amount of any payments to be made by Traiste Ltd to HM Revenue and Customs (HMRC) in respect of each of the two ways for Jordi to extract the additional £30,000 cash from the company, and state the due date of any such tax payments.

(5 marks)

(20 marks)

4

You should assume that today's date is 10 March 2017.

Bex has recently left employment and entered into a business partnership with Amy. Bex requires advice in respect of a loan to the partnership, the calculation of her share of profits and the tax treatment of her redundancy payment.

Bex:

– Is resident and domiciled in the UK.
– Received an annual salary of £120,000 from her former employer, Cape Ltd.
– Was made redundant by Cape Ltd on 30 September 2016.
– Joined Amy, a sole trader, to form a partnership on 1 January 2017.
– Has no other source of income.

Amy and Bex partnership:

– Will prepare its first set of accounts for the 16 month period to 30 April 2018.
– Is expected to make a tax-adjusted profit of £255,000 (before deducting interest and capital allowances) for the period ending 30 April 2018.
– The tax written down value on its main pool at 1 January 2017 is £Nil.
– Except for the computer referred to below, no further assets will be purchased by either Amy or Bex for use in the partnership in the period ending 30 April 2018.

Profit sharing arrangements:

– The partnership's profit sharing agreement is as follows:

	Amy	**Bex**
Annual salary	£0	£30,000
Profit sharing ratio	3	1

Bex – loans:

– In addition to her capital contribution, Bex will make a £20,000 loan to the partnership on 1 August 2017. The partnership will use this money wholly for business purposes.
– This loan will be financed by a £25,000 personal loan from Bex's bank, taken out on the same date.
– The remaining £5,000 of the bank loan will be used to purchase a computer for use in the partnership. Bex will have 20% private use of this computer.
– Both the loan from Bex to the partnership and the personal bank loan to Bex will carry interest at the rate of 5% per annum.

Bex – redundancy package from Cape Ltd:

– The package comprised a £22,000 statutory redundancy payment and an additional ex-gratia payment of £48,000.
– Bex also received three months' salary in lieu of notice, as specified in her contract of employment.

Required:

(a) (i) Explain, with the aid of calculations, the tax deductions which will be available in respect of the loan interest payable on both the loan from Bex to the partnership and the personal bank loan to Bex. **(7 marks)**

(ii) In respect of the period ending 30 April 2018, show the allocation between the partners of the taxable trading profit of the partnership. **(4 marks)**

(iii) Calculate Bex's taxable trading income in respect of her share of the partnership profits for all relevant tax years.
Note: Your answer to (a)(iii) should clearly state the tax years and basis periods involved. **(3 marks)**
(b) Explain the income tax implications for Bex of the receipt of the redundancy package from Cape Ltd and calculate her total income tax liability for the tax year 2016/17. **(6 marks)**
(Total: 20 marks)

5

Jerome is an unincorporated sole trader who is about to sell his business to a company. He requires advice on the value added tax (VAT) implications of the sale of the business, whether a new lease in respect of a motor car for use by him should be entered into by him or by the company and the payment of travel expenses in respect of the family of an employee working overseas.

Jerome's business:

- Has annual taxable profits of £75,000 and is growing.
- Is registered for the purposes of VAT.
- Jerome leases a motor car in which he drives 20,000 miles per year of which 14,000 miles are on business.He anticipates that this level and pattern of mileage will continue in the future.
- The assets of the business include a building that was completed in 2015 and purchased by Jerome in April 2015 for £320,000.

The sale of Jerome's business to Tricycle Ltd:

- The business will be sold to Tricycle Ltd on 1 August 2017.
- Jerome will own the whole of the share capital of Tricycle Ltd.
- Tricycle Ltd will not change the nature of the business but will look to expand it by exporting its products to Italy.

The lease of the motor car:

- The existing lease will end on 31 July 2017.
- A new lease will be entered into on 1 August 2017 by either Jerome or Tricycle Ltd.
- The annual leasing costs of the new car will be £4,400.

The motor car to be leased on 1 August 2017:

- Will be diesel powered and have a list price when new of £31,000.
- Will have CO_2 emissions of 137 grams per kilometre.
- Will have annual running costs, including fuel, of £5,000 in addition to the leasing costs.

Remuneration to be paid by Tricycle Ltd to Jerome:

- A salary of £4,000 per month.
- If Tricycle Ltd leases the motor car, Jerome will use it for business and private purposes and will be provided with fuel for all his motoring.
- If Jerome leases the motor car, he will be paid 50 pence per mile for driving it on business journeys.

Expansion into Europe:

- An employee of Tricycle Ltd will work for up to three months in Italy between April and July 2018.
- The employee will continue to be resident and domiciled in the UK.
- Tricycle Ltd will pay the travel costs of the employee's wife and three-year-old child when they visit him in June 2018.
- The travel costs will be taxable in the hands of the employee as employment income.

Required

(a) Explain the value added tax (VAT) implications of the sale of Jerome's business to Tricycle Ltd.
(7 marks)

(b) Prepare calculations for the 12-month period to show the total tax cost, for Tricycle Ltd and Jerome, of the car being leased by:

(i) Tricycle Ltd

(ii) Jerome

Note. Ignore VAT for part (b) of this question. **(11 marks)**

(c) State the conditions that must be satisfied for a deduction for the travel costs paid by Tricycle Ltd to be given against the employee's total employment income. **(2 marks)**

You should assume that the tax rates and allowances for the tax year 2016/17 and for the Financial Year to 31 March 2017 will continue to apply for the foreseeable future.

(Total = 20 marks)

End of Question Paper