ACCA P6 UK
Advanced Taxation UK

Mock Exam Wednesday 15th December, 2017

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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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 CO_2 emissions is 95 grams per kilometer.

The percentage rates applying to petrol cars with CO_2 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

Your manager has had a meeting with Gail. Gail owns the whole of the ordinary share capital of Aero Ltd. An email from your manager setting out the matters discussed in the meeting and a schedule prepared by Mill, a junior member of your firm's tax department, are set out below.

Email from your manager – dated 9 June 2016

Gail

Gail was born in 1969 and is resident and domiciled in the UK. She owns the whole of the ordinary share capital of Aero Ltd (A Ltd) and works full-time as a director of the company. A Ltd owns the whole of the ordinary share capital of Zephyr Ltd (Z Ltd). A Ltd and Z Ltd are both UK resident companies paying corporation tax at the main rate.

Historical transactions in respect of A Ltd and Z Ltd – all transactions took place at market value

1 January 2008	A Ltd acquired the whole of the ordinary share capital of Z Ltd for £180,000.
1 October 2012	A Ltd sold a building (the Simpson Building) to Z Ltd for £110,000. A Ltd had purchased this building for £75,000 on 1 December 2004.
1 March 2014	Z Ltd sold a building (the Torro Building) to A Ltd for £170,000. Z Ltd had purchased this building for £115,000 on 1 June 2010.

Proposed transactions – all transactions will take place at market value

Gail intends to raise a substantial sum of money by carrying out the following transactions:

(1) 24 June 2016	Z Ltd will sell the Simpson Building to an unrelated purchaser for £140,000. Rollover relief will not be claimed in respect of this disposal. Z Ltd will pay a dividend to A Ltd equal to the post-tax proceeds of this sale.
(2) 1 July 2016	A Ltd will sell the whole of the ordinary share capital of Z Ltd for £250,000.
(3) 15 July 2016	All of the cash realised by A Ltd as a result of transactions (1) and (2) will be paid to Gail in the form of either a dividend or a bonus.

Please carry out the following work:

(a) Schedule prepared by Mill

I can confirm that there are no computational errors in the schedule but I suspect that Mill will have made a few technical errors.

Please identify and explain any errors in the schedule, explain whether or not the notes to the schedule are or are not correct, and calculate the correct amount of total cash available to pay to Gail.

(b) Payment to Gail

Calculate the additional tax and national insurance contributions due, as reduced by any corporation tax savings, if all of the cash realised by A Ltd as a result of the proposed transactions (1) and (2) is paid to Gail in the form of:

(i) a bonus
(ii) a dividend.

Gail's annual income tax liability in respect of her annual salary of £85,000 from A Ltd is £23,627. This will be her only source of income in the tax year 2016/17 other than any payments received from A Ltd as outlined above.

(c) Non-disclosure of income

Gail has realised that she has not declared some of her income in respect of the tax year 2011/12. As a result of this, her income tax liability for that tax year was understated. I have already explained the interest and penalties which may be charged in respect of this error.

State the other matters which need to be considered, by us and by Gail, in relation to the disclosure of this error to HM Revenue and Customs (HMRC).

Tax manager

Schedule prepared by Mill

Cash which will be available to pay to Gail as a result of the proposed transactions (1) and (2)

	£
Sale of the Simpson Building by Zephyr Ltd	
Sale proceeds	140,000
Less: cost	(110,000)
indexation allowance (October 2012 to June 2016) £110,000 x 0·080	(8,800)
Chargeable gain	21,200
Less: corporation tax payable by Zephyr Ltd at 21%	(4,452)
Dividend of post-tax proceeds paid to Aero Ltd	16,748
Less: corporation tax payable by Aero Ltd at 21%	(3,517)
Cash available in respect of the sale of the Simpson Building	13,231
Sale proceeds in respect of Zephyr Ltd	250,000
Total cash available for Gail	263,231

Notes

1. I do not think there will be a chargeable gain on the sale of Zephyr Ltd due to the substantial shareholding exemption.
2. I think there will be a degrouping charge in respect of the Torro Building but I do not know how to compute it.

Mill

Required:

Carry out the work requested in the email from your manager. The following marks are available:

(a) Schedule prepared by Mill. (11 marks)

Note: The following movements in the Retail Prices Index should be used, where necessary.

December 2004 to October 2012	0·293
December 2004 to June 2016 (est.)	0·400
January 2008 to July 2016 (est.)	0·250
June 2010 to March 2014	0·137
October 2012 to June 2016 (est.)	0·080

(b) Payment to Gail. (9 marks)

(c) Non-disclosure of income. (5 marks)

(25 marks)

Section B – TWO questions ONLY to be attempted

.3

Gagarin wishes to persuade a number of wealthy individuals who are business contacts to invest in his company, Vostok Ltd. He also requires advice on the recoverability of input tax relating to the purchase of new business premises.

The following information has been obtained from a meeting with Gagarin.

Vostok Ltd:

– An unquoted UK resident company, set up in 2011.

– Gagarin owns 100% of the company's ordinary share capital.

– Has 18 employees.

– Provides computer based services to commercial companies.

– Requires additional funds to finance its expansion.

Funds required by Vostok Ltd:

– Vostok Ltd needs to raise £420,000.

– Vostok Ltd will issue 20,000 shares at £21 per share on 31 August 2017.

– The new shareholder(s) will own 40% of the company.

– Part of the money raised will contribute towards the purchase of new premises for use by Vostok Ltd.

Gagarin's initial thoughts:

– The minimum investment will be 5,000 shares and payment will be made in full on subscription.

– Gagarin has a number of wealthy business contacts who may be interested in investing.

– Gagarin has heard that it may be possible to obtain tax relief for up to 58% of the investment via the enterprise investment scheme.

Wealthy business contacts:

– Are all UK resident higher rate and additional rate taxpayers.

– May wish to borrow funds to invest in Vostok Ltd if there is a tax incentive to do so.

New premises:

– Will cost £456,000 including value added tax (VAT).

– Will be used in connection with all aspects of Vostok Ltd's business.

– Will be sold for £600,000 plus VAT in six years' time.

– Vostok Ltd will waive the VAT exemption on the sale of the building.

The VAT position of Vostok Ltd:

– In the year ending 31 March 2018, 28% of Vostok Ltd's supplies will be exempt for the purposes of VAT.

– This percentage is expected to reduce over the next few years.

– Irrecoverable input tax due to the company's partially exempt status exceeds the de minimis limits.

Required:

(a) Prepare notes for Gagarin to use when speaking to potential investors.

The notes should include:

(i) The tax incentives immediately available in respect of the amount invested in shares issued in accordance with the enterprise investment scheme.
(5 marks)

(ii) The answers to any questions that the potential investors may raise in connection with the maximum possible investment, borrowing to finance the subscription and the implications of selling the shares. (9 marks)

You should assume that Vostok Ltd and its trade qualify for the purposes of the

enterprise investment scheme and you are not required to list the conditions that need to be satisfied by the company, its shares or its business activities.

(b) Calculate the amount of input tax that will be recovered by Vostok Ltd in respect of the new premises in the year ending 31 March 2018 and explain, using illustrative calculations, how any additional recoverable input tax will be calculated in future years. (6 marks)

(Total: 20 marks)

.4

Tetra has recently been made redundant and joined a trading partnership. He requires advice on the redundancy payments he has received, a potential investment in a venture capital trust and on making pension contributions. He has also asked for a calculation of his class 4 national insurance contributions in respect of his income from the partnership.

Tetra:

– Is 44 years old.
– Was made redundant by Ivy Ltd on 31 March 2017.
– Became a partner in the Winston partnership on 1 June 2017.
– Is considering two alternative investments.
– Tetra has not made any pension contributions into his personal pension fund in the tax year 2017/18 prior to the investment considered below.

Redundancy payments made by Ivy Ltd to Tetra:

– Statutory redundancy of £4,200.
– A non-contractual payment of £46,000 as compensation for loss of office.
– £7,000 in consideration of Tetra agreeing not to work for any competitor of Ivy Ltd for 12 months.

The Winston Partnership:

– Prior to 1 June 2017, there were two partners in the partnership: Zia and Fore.
– Budgeted tax adjusted trading profits of the partnership:
– Year ending 31 December 2017 – £300,000
– Year ending 31 December 2018 – £380,000

Profit sharing arrangements

	Zia	**Fore**	**Tetra**
Up to 31 May 2017 – Profit share	60%	40%	N/A
From 1 June 2017 – Annual salary	–	£24,000	£18,000
– Profit share	40%	30%	30%

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Two alternative investments:

In the tax year 2017/18 Tetra will either:

– subscribe £32,000 for shares in a venture capital trust; or

– make a payment of £32,000 to a registered personal pension fund.

Required:

(a) Explain briefly whether or not the redundancy payments made by Ivy Ltd to Tetra are subject to income tax. (3 marks)

(b) Calculate the class 4 national insurance contributions payable by Tetra for the tax year 2017/18. (7 marks)

(c) Compare the effect of the two alternative investments on Tetra's income tax liability for the tax year 2017/18 and identify any non-tax matters relevant to the investment decision of which he should be aware.

For part (c) of this question it should be assumed that Tetra's net income in the tax year 2017/18 (before deduction of the personal allowance) will be £130,000, none of which is savings income or dividend income. (8 marks)

(d) Explain two characteristics of SAYE scheme (2 Marks)

(Total Marks 20)

.5

Cinnabar Ltd requires advice on the corporation tax treatment of expenditure on research and development, the sale of an intangible asset, and a proposed sale of shares. Cinnabar Ltd has also requested advice on the potential to claim relief for losses incurred in a new joint venture.

Cinnabar Ltd:

- Is a UK resident trading company.
- Has one wholly-owned UK subsidiary, Lapis Ltd.
- Is a small enterprise for the purposes of research and development expenditure.
- Prepares accounts to 31 March each year.
- Expects to pay corporation tax by instalments for all relevant accounting periods.
- Intends to enter into a joint venture with another UK company, Amber Ltd. This joint venture will be undertaken by a newly incorporated company, Beryl Ltd.

Research and development expenditure – year ended 31 March 2017:

- The expenditure on research and development activities was made up as follows:

	£
Computer hardware	44,000
Software and consumables	18,000
Staff costs	136,000
Rent	30,000
	228,000

- The staff costs include a fee of £10,000 paid to an external contractor, who was provided by an unconnected company.
- The remainder of the staff costs relates to Cinnabar Ltd's employees, who are wholly engaged in research and development activities.
- The rent is an appropriate allocation of the rent payable for Cinnabar Ltd's premises for the year.

Sale of an intangible asset to Lapis Ltd:

- The intangible asset was acquired by Cinnabar Ltd in May 2012 for £82,000.
- The asset was sold to Lapis Ltd on 1 November 2016 for its market value on that date of £72,000, when its tax written down value was £65,600.

Sale of shares in Garnet Ltd:

- Cinnabar Ltd acquired a 12% shareholding in Garnet Ltd, a UK resident trading company, in July 2011 for £120,000.
- Cinnabar Ltd sold one third of this shareholding on 20 October 2016.
- Cinnabar Ltd intends to sell the remaining two thirds of this shareholding on 30 November 2017 for £148,000.
- It would be possible to bring forward this sale to October 2017 if it is beneficial to do so.

Beryl Ltd:

- Will be incorporated in the UK and will commence trading on 1 January 2018.
- Is anticipated to generate a trading loss of £80,000 in its first accounting period ending 31 December 2018.
- Will have no sources of income other than trading income.

Alternative capital structures for Beryl Ltd:

• Two alternative structures have been proposed for the shareholdings in Beryl Ltd:

– **Structure 1**: 76% of the shares in Beryl Ltd will be held by Amber Ltd, with the remaining 24% held by Cinnabar Ltd.

– **Structure 2**: 70% of the shares will be held by Amber Ltd, 24% by Cinnabar Ltd and the remaining 6% held personally by Mr Varis, the managing director of Amber Ltd.

Required

(a) (i) Explain, with supporting calculations, the treatment for corporation tax purposes of the items included in Cinnabar Ltd's research and development expenditure for the year ended 31 March 2017.
(5 marks)

(ii) Explain the corporation tax implications for Cinnabar Ltd of the sale of the intangible asset to Lapis Ltd. **(2 marks)**

(b) Calculate the after-tax proceeds which would be received on the proposed sale of the Garnet Ltd shares on 30 November 2017 and explain the potential advantage of bringing forward this sale to October 2017.
Note. The following indexation factor should be used where necessary:
July 2011 – November 2017 – 0.1312 **(5 marks)**

(c) Explain, with supporting calculations, the extent to which Cinnabar Ltd can claim relief for Beryl Ltd's trading loss under each of the proposed alternative capital structures. **(8 marks)**
(Total = 20 marks)