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# Answers

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Section B

Marks

- 16 D** Hali  $39,300 - (15,700 - 11,700) = £35,300$   
Goma  $9,100 - 6,900 = £2,200$
- 17 A** Cost figure  $5,000 \times 1.00 = £5,000$   
The value per share is £4.95. Given the need for a quick sale, there is no reason to believe that this is not a bargain at arm's length.
- 18 B**
- 19 C**  $63,600 - (62,000 - 44,000) = £45,600$
- 20 A** Qualifying corporate bonds, motor car and quoted shares held within an ISA are all exempt assets for the purposes of capital gains tax.
- 21 A** Total standard sales for months 1 to 12 = £57,100  
Total zero rated sales for months 1 to 12 = £27,300  
 $57,100 + 27,300 - 3,400 - 1,900 + 3,700 + 4,900 = £87,700$
- 22 D** The £1,800 advertising is more than six months prior to registration, and the £300 advertising has no VAT invoice, so there is no pre-registration VAT recoverable.
- 23 B** A VAT invoice must be issued within 30 days of making a taxable supply.  
VAT records (including VAT invoices) must normally be retained for six years.
- 24 C** Default interest will not be charged because separate disclosure of the VAT underpayment was not required (it was less than £10,000).
- 25 C** Entertaining UK customers –  $800 \times 20\% = £160$   
50% of the input VAT ( $700 \times 20\% \times 50\% = £70$ ) of the leasing cost of the motor car will be non-deductible.
- 26 B**  $325,000 - 80,000 - 40,000 = £205,000$
- 27 D**  $340,000 - 152,000 = £188,000$
- 28 B**  $((100,000 \times £7.10) - (40,000 \times £4.20)) - 3,000 - 3,000 = £536,000$
- 29 A** Death is between five and six years of when the PET was made, so taper relief of 60%. The due date is six months after the end of the month in which the donor dies.
- 30 C** The gifts of £275 ( $85 + 190$ ) and £490 exceed the £250 exemption.

2 marks each

30

## Section C

Marks

## 31 Dembe

	£	
(a) Extension of basic rate tax band 40,000 (32,000 x 100/80) at 20% (40% – 20%)	8,000	2
Reinstatement of personal allowance 11,850 at 40%	<u>4,740</u>	1½
Reduction in income tax liability	12,740	
National insurance contributions (NICs)	<u>0</u>	½
Total tax reduction	<u>12,740</u>	<u>4</u>

## Tutorial notes:

- (1) Before making the personal pension contribution, Dembe's adjusted net income of £130,000 exceeds £123,700, so no personal allowance is available. The personal pension contribution will reduce Dembe's adjusted net income to less than £100,000 (130,000 – 40,000 = 90,000), so the personal allowance will be fully reinstated.
- (2) Pension contributions have no impact on NICs.

	£	£	
(b) Disposal made by Dembe 67,000 at 28%		18,760	½
Disposal made by Kato 16,350 (34,500 – 18,150) at 18%	2,943		1
36,950 (65,000 – 11,700 – 16,350) at 28%	<u>10,346</u>		1
		<u>(13,289)</u>	
Capital gains tax (CGT) saving		5,471	
Additional legal fees		<u>(2,000)</u>	½
Overall saving		<u>3,471</u>	<u>3</u>

- (c) (1) On first death, there will be no inheritance tax (IHT) liability because of the spouse exemption. ½
- (2) There will also be no IHT liability on second death because the couple's residence nil rate bands and nil rate bands will exceed the value of the combined chargeable estate:

	£	
Combined chargeable estate	880,000	
Residence nil rate bands (125,000 x 2)	(250,000)	½
Nil rate bands (325,000 x 2)	<u>(650,000)</u>	½
Chargeable at 40%	<u>0</u>	½

- (3) Even if IHT were payable (for example, if the value of the estate increases faster than the available nil rate bands), then there is no advantage to leaving assets to children on the first death. This is because unused nil rate bands can be transferred to the surviving spouse.

1  
3  
**10**

## 32 Tonie

- (a) (1) Tonie was previously resident and was in the UK between 46 and 90 days. She therefore needed three UK ties or more to be treated as UK resident. ½
- (2) Tonie only had two UK ties, which were being in the UK for more than 90 days during the previous tax year, and spending more time in the UK than in any other country during 2017–18. 1½

2

(b) The contract was for a relatively long period of time.

Tonie did not take any financial risk.

Tonie only worked for Droid plc.

Tonie was required to do the work personally.

Droid plc exercised control over Tonie via the weekly meetings and instructions.

(*1/2 mark per item to a maximum of*) 2

(c) **Tonie – Taxable income 2018–19**

	<b>£</b>	
Employment income		
Salary (6,200 x 12)	74,400	1/2
Mileage allowance (2,300 at 15p (60p – 45p))	345	1
Leasing costs (180 x 12)	(2,160)	1
Property income (working)	7,570	W
Savings income (100,000 at 3% x 5/12)	1,250	2
Premium bond prize	0	1/2
Interest from savings certificate	0	1/2
	81,405	
Personal allowance	(11,850)	1/2
Taxable income	69,555	

**Tutorial note:** *Under the accrued income scheme, Tonie must include the accrued interest from the gilts as savings income for 2018–19, even though she has not received any actual interest.*

**Working – Property income**

	<b>£</b>	
Rent received	10,080	1/2
Mortgage interest (4,200 x 50%)	(2,100)	1
Replacement furniture relief		
Washing machine	(380)	1
Dishwasher	0	1
Other expenses	(1,110)	1/2
	6,490	
Furnished room (8,580 – 7,500)	1,080	1
Property income	7,570	
		11
		<b>15</b>

**Tutorial notes:**

- (1) *No relief is given for that part of the cost of the washer-dryer which represents an improvement over the original washing machine. Relief is therefore restricted to the cost of a similar washing machine.*
- (2) *No relief is available for the cost of the dishwasher because this is an initial cost rather than the cost of a replacement.*
- (3) *Claiming rent-a-room relief in respect of the furnished room is more beneficial than the normal basis of assessment (8,580 – 870 = £7,710).*

## 33 Aoede

## (a) (i) Aoede Ltd – Taxable total profits

	Year ended 31 March 2018 £	Year ended 31 March 2019 £	
Trading profit	0	67,800	
Property business income	0	23,400	
Chargeable gains	5,800	16,200	
Total profits	5,800	107,400	1
Loss relief – Current year	(5,800)		1
Loss relief – Carry forward		(100,800)	1
Qualifying charitable donations	0	(6,600)	1
Taxable total profits	<u>0</u>	<u>0</u>	

## Moon Ltd – Taxable total profits

	Year ended 31 March 2019 £	
Trading profit	19,700	½
Group relief	(19,700)	½
Taxable total profits	<u>0</u>	<u>5</u>

**Tutorial note:** Aoede Ltd has unused losses of £11,400 ( $111,300 + 26,400 - 5,800 - 100,800 - 19,700$ ) which will be carried forward.

- (ii) It is not beneficial for Aoede Ltd to make the loss relief claim against total income for the year ended 31 March 2018 because the income would have otherwise been covered by the qualifying charitable donations of £6,000. 1

## (b) Bianca Ltd – Tax adjusted trading profit for the year ended 31 March 2019

	£	
Trading profit	256,300	
Advertising expenditure	(5,800)	½
Lease of motor cars (5,100 x 15%)	765	1½
Capital allowances		
Laptops (1,000 x 4 x 100%)	(4,000)	1
Motor car [1] (12,400 x 18%)	(2,232)	1
Motor car [2] (13,900 x 8%)	(1,112)	1
Revised trading profit	<u>243,921</u>	<u>5</u>

## Tutorial notes:

- (1) The advertising expenditure incurred during January 2017 is pre-trading, and is therefore treated as incurred on 1 April 2018.
- (2) The original cost of the laptops is irrelevant.
- (3) Although motor car [1] has CO<sub>2</sub> emissions up to 50 grams per kilometre, it is second hand and therefore does not qualify for the 100% first year allowance. It instead qualifies for writing down allowances at the rate of 18%.
- (4) Motor car [2] has CO<sub>2</sub> emissions over 110 grams per kilometre and therefore qualifies for writing down allowances at the rate of 8%.

**Marks****(c) Charon Ltd – Chargeable gains and capital losses for the year ended 31 March 2019****First property**

	<b>£</b>	
Disposal proceeds	368,000	½
Cost	(147,000)	½
Enhancement expenditure	<u>(39,000)</u>	½
	182,000	
Indexation allowance 147,000 x 0.856	<u>(125,832)</u>	1
Chargeable gain	<u>56,168</u>	

**Second property**

	<b>£</b>	
Disposal proceeds	167,000	½
Cost	(172,000)	½
Indexation allowance	<u>0</u>	½
Capital loss	<u>(5,000)</u>	—
		<u>4</u>
		<b><u>15</u></b>

**Tutorial note:** *There is no indexation allowance for the first property's enhancement expenditure of £39,000 because this was incurred after December 2017.*

**Additional marking guide for section C***Marks available*    *Marks awarded***31 Dembe**

(a) Pension	4
(b) Property	3
(c) IHT	3
<b>Total marks</b>	<b>10</b>

**32 Tonie**

(a) Residence	2
(b) Factors	2
(c) Employment	2.5
Other income	3
Property	4
Room	1
PA	0.5
	11
<b>Total marks</b>	<b>15</b>

**33 Aoede Ltd, Bianca Ltd and Charon Ltd**

(a) (i) Aoede Ltd	4
Moon Ltd	1
	5
(ii) Explanation	1
(b) Adjustments	2
C/As	3
	5
(c) First property	2.5
Second property	1.5
	4
<b>Total marks</b>	<b>15</b>



# TX-UK Examiner's commentary on March/June 2019 sample questions

**This commentary has been written to accompany the published sample questions and answers and is written based on the observations of markers. The aim is to provide constructive guidance for future candidates and their tutors, giving insight into what the marking team is looking for, and flagging pitfalls encountered by candidates who sat these questions.**

## Question 31

This question involved Dembe and her husband Kato who wanted advice regarding three proposals:

- (a) Dembe was going to make a personal pension contribution and wanted to know the amount of income tax and national insurance contributions (NICs) which she would save as a result of making the contribution.

Part (a) for 4 marks required candidates to calculate the reduction in Dembe's income tax liability and NICs if she were to make the personal pension contribution. Although there were some good answers to this section, many candidates used up valuable time by producing full tax computations. The question stated that these were not required, indicating that workings were to be done at the margin.

Many candidates did not appreciate that the personal pension contribution would have no impact on NICs. This fact should have just been stated, without any need to perform calculations. Many candidates did not realise that the personal pension contribution would bring Dembe's adjusted net income down from in excess of £123,700, to less than £100,000. Therefore, the personal allowance would have been fully reinstated. This shows the importance of carefully considering the impact of all the information provided.

- (b) Dembe was going to sell a residential property, which would result in a chargeable gain. She wanted to know whether it would be beneficial to transfer the property to Kato prior to it being sold. The transfer would cost £2,000 in additional legal fees, reducing the amount of chargeable gain.

Part (b) for 3 marks required a calculation of the couple's overall saving if the residential property were transferred to Kato and sold by him, rather than the property being sold by Dembe. This section of the question was generally well answered provided the basic tax planning involved was understood. Transferring the property to Kato prior to its disposal meant a lower rate of capital gains tax (CGT) on part of the gain, plus Kato's annual exempt amount was available (Dembe's was not).

Somewhat surprisingly, quite a few candidates used the incorrect rates of CGT, despite the fact that these rates are provided in the tax rates and allowances. The £2,000 in additional legal fees were often not taken into account in the comparison.

- (c) Dembe was concerned about the amount of inheritance tax (IHT) which would be payable when she and Kato die. The couple's combined chargeable estate was valued at £880,000, including a main residence valued at £360,000. Dembe and Kato had initially left their entire estates to each other, with the total estate left to the couple's children on second death. The couple wanted to know whether it would be beneficial to change the terms of their wills so that assets worth £325,000 were left to their children on first death.

Part (c) for 3 marks required (1) a calculation of the amount of IHT payable were Dembe and Kato to both die in the near future, and (2) an explanation of whether it might be beneficial to leave assets worth

£325,000 to their children when the first of them were to die. This section was not particularly well answered, with many candidates not appreciating how straightforward the answer actually was.

The couple's estate, with a value of £880,000, would have been fully covered by the available nil rate bands totalling £900,000 (two nil rate bands of £325,000, and two residence nil rate bands of £125,000). The IHT liability was therefore nil.

Even if IHT were payable (for example, if the value of the estate increased faster than the available nil rate bands), then there would be no advantage to leaving assets to children on the first death. This is because unused nil rate bands can be transferred to the surviving spouse. This very basic IHT planning was often overlooked.

### Question 32

The income tax question involved Tonie. She was resident in the UK up to and including the tax year 2016–17, and again for the tax year 2018–19. However, Tonie was unsure of her residence status for the tax year 2017–18. On 6 April 2018, Tonie, a software developer, accepted a one-year contract to maintain websites for Droid plc. Droid plc treated the contract as one of employment. In addition, for the tax year 2018–19, Tonie had property income (including the renting out of one furnished room in her main residence), gilt interest (subject to tax under the accrued income scheme), a premium bond prize and interest on the maturity of savings certificates from NS&I (National Savings and Investments).

Part (a) for 2 marks required candidates to explain why Tonie was treated as not resident in the UK for the tax year 2017–18. This section was reasonably well answered, although candidates sometimes did not focus their answers on the information given. For example, there was no point mentioning the UK ties which were not met by Tonie. The section was for just two marks, so this should have been a good indication that only a few brief sentences were required and not a half page discussion on everything a candidate knew about the residence rules.

Part (b) for 2 marks required a list of four factors indicating that Tonie should have been treated as employed in relation to her contract with Droid plc rather than as self-employed. This section was well answered. However, candidates should avoid repetition by, for example, stating that Tonie (1) attended weekly meetings at Droid plc's offices, and (2) received instructions – these were both indications of control. When asked for a list it is easiest to answer using a list format.

Part (c) for 11 marks required a calculation of Tonie's taxable income for the tax year 2018–19. With the exception of the accrued gilt income, this section was generally very well answered.

- Candidates should note that most of the workings for this style of question can be included within the main computation. For example, the mileage allowance deduction of  $(2,300 \times 15p) - 45p = £345$  was easily included within the main computation. The only aspect which warranted a separate working here was property income.
- With computations containing both additions and deductions, candidates should be very careful to indicate which is which. A single column approach with deductions included as such on the spreadsheet avoids any confusion.
- The fact that the property income deduction for mortgage interest was restricted to 50% was often overlooked.

- As stated in the requirements, candidates should always clearly indicate (by the use of a zero) any items which do not require adjustment. The premium bond prize and the interest on the maturity of savings certificates were exempt, but this needed to be indicated.
- Candidates should note that taxable income is after the personal allowance has been deducted.
- Reading and understanding a question's requirements will avoid spending time calculating an income tax liability when it is not needed. The requirement was just to calculate Tonie's taxable income.

### Question 33

This corporation tax question involved three unconnected limited companies, Aoede Ltd, Bianca Ltd and Charon Ltd.

Aoede Ltd commenced trading on 1 April 2017. For the year ended 31 March 2018, the company made a trading loss and a property business loss, but was profitable for the year ended 31 March 2019. Aoede Ltd owned 100% of the ordinary share capital of Moon Ltd. Moon Ltd commenced trading on 1 April 2018 and for the year ended 31 March 2019 made a trading profit.

Part (a)(i) for 5 marks required candidates to calculate the taxable total profits of Aoede Ltd for the years ended 31 March 2018 and 31 March 2019, and of Moon Ltd for the year ended 31 March 2019. This was on the basis that Aoede Ltd claimed relief for its losses as early as possible. Although Moon Ltd was often overlooked, this section was generally well answered. For the year ended 31 March 2018, many candidates did not appreciate that loss relief was claimed against Aoede Ltd's chargeable gain in priority to offsetting the qualifying charitable donations.

Part (a)(ii) for 1 mark required candidates to explain which aspect of the loss relief claim made by Aoede Ltd was not beneficial for the company to make. This section was often not answered. The answer was simply that it was not beneficial for Aoede Ltd to make the loss relief claim against total income for the year ended 31 March 2018 because the income would have otherwise been covered by qualifying charitable donations.

Bianca Ltd commenced trading on 1 April 2018. The company's trading profit was given, but this figure was before making any adjustments required for (1) pre-trading advertising expenditure, (2) leasing costs relating to two motor cars (one with CO<sub>2</sub> emissions of up to 110 grams per kilometre, and one with CO<sub>2</sub> emissions in excess of this limit), and (3) capital allowances.

Part (b) for 5 marks required a calculation of Bianca Ltd's revised tax adjusted trading profit for the year ended 31 March 2019. This section was very well answered. Candidates should note that when dealing with straightforward capital allowance computations such as those involved here, it is quicker to include them in the main computation rather than producing a full capital allowances working. For example, the computations for the two motor cars were just ( $12,400 \times 18\% = \text{£}2,232$ ) and ( $13,900 \times 8\% = \text{£}1,112$ ).

Charon Ltd disposed of two investment properties during the year ended 31 March 2019. The first disposal resulted in a chargeable gain after allowing for indexation allowance on the original cost, but not the enhancement expenditure (because this was incurred after 31 December 2017). The second disposal resulted in a capital loss, so the indexation allowance was irrelevant.

Part (c) for 4 marks required a calculation of Charon Ltd's chargeable gains and capital losses. This section was also well answered. However, a few candidates combined the two computations. Where a question involves more than one disposal, then the gain or loss for each disposal must be calculated separately. Candidates should also be aware that there is no indexation allowance for any expenditure incurred after 31 December 2017.