
Answers

Section C

Marks

31 (a) Property purchased personally

	£	
Employment income	60,000	½
Property income (working)	17,600	W
	<u>77,600</u>	
Personal allowance	(11,500)	½
Taxable income	<u>66,100</u>	
Income tax		
£		
33,500 at 20%	6,700	½
32,600 at 40%	13,040	½
	<u>66,100</u>	
	<u>19,740</u>	
Interest relief (3,000 (12,000 x 25%) at 20%)	(600)	1
Income tax liability	<u>19,140</u>	

Working – Property income

	£	
Rent receivable (2,600 x 12)	31,200	½
Mortgage interest (12,000 x 75%)	(9,000)	1
Other expenses	(4,600)	½
Property income	<u>17,600</u>	

Property purchased via a limited company

	£	
Employment income	60,000	½
Dividend income	6,000	½
	<u>66,000</u>	
Personal allowance	(11,500)	½
Taxable income	<u>54,500</u>	
Income tax		
£		
33,500 at 20%	6,700	½
15,000 (60,000 – 11,500 – 33,500) at 40%	6,000	½
5,000 at 0%	0	½
1,000 (6,000 – 5,000) at 32.5%	325	½
	<u>54,500</u>	
Income tax liability	<u>13,025</u>	

Conclusion

If Kat purchases the property via a limited company, then the overall tax saving will be £3,341 compared to purchasing the property personally:

	£	
Property purchased personally	19,140	
Property purchased via a limited company (2,774 + 13,025)	(15,799)	
Tax saving	<u>3,341</u>	½
		<u>9</u>

Tutorial note: The comparison ignores the fact that not all of the profits are withdrawn under the company purchase option. However, profits might typically be retained within a company to repay the mortgage borrowing or to fund a future property purchase.

- (b) (1) The annual exempt amount of £11,300 will not be available if the gain occurs within a limited company.
 (2) However, a limited company will benefit from an indexation allowance.
 Either point for 1 mark.

1
10

32 (a) Martin – Taxable income 2017–18

	£	
Employment income		
Salary	144,000	½
Bonuses (21,400 + 13,700)	35,100	1
Car benefit (32,800 x 9% x 9/12)	2,214	1
Car benefit (36,400 x 13% x 3/12)	1,183	1
Beneficial loan	0	½
Home entertainment system (7,400 x 20%)	1,480	1
Charitable payroll deductions	(1,000)	½
Professional subscription	(560)	½
Health club membership	0	½
	<u>182,417</u>	
Trading profit (working)	20,930	W
Property income (9,200 – 7,500)	1,700	1
Dividend income	440	½
Interest from savings certificate	0	½
	<u>205,487</u>	
Personal allowance	0	½
Taxable income	<u>205,487</u>	

Tutorial notes:

- (1) The bonus of £18,200 will have been treated as being received during 2016–17 because Martin became entitled to it during that tax year.
 (2) There is no taxable benefit in respect of the beneficial loan because it did not exceed £10,000 at any time during 2017–18.
 (3) No personal allowance is available because Martin's adjusted net income of £205,487 exceeds £123,000.

Working – Trading profit

	£	
1 January to 30 September 2017		
54,600 x 9/12 x 40%	16,380	1
1 October to 31 December 2017		
54,600 x 3/12 x 1/3	4,550	1
	<u>20,930</u>	
		<u>11</u>

- (b) (i) (1) Martin's deadline for amending his self-assessment tax return for the tax year 2017–18 will be 31 January 2020 (12 months from the latest (electronic) filing date for the return of 31 January 2019).
 (2) Should additional tax become payable, then interest will be charged from 31 January 2019 to the date when the additional tax is paid.
- (ii) (1) If HMRC intend to carry out a compliance check into Martin's self-assessment tax return for 2017–18, then they will have to notify him by 26 December 2019 (12 months after they receive his tax return).
 (2) HMRC will carry out a compliance check because of a suspicion that income has been undeclared or deductions have been incorrectly claimed.

1
 1
2
 1
 1
2
15

33 (a) Ash Ltd

(i) Accounting periods

1 February 2016 to 31 January 2017	1
1 February 2017 to 31 March 2017	½
Year ended 31 March 2018	½
	<u>2</u>

Tutorial notes:

- (1) The bank account opened by Ash Ltd on 1 December 2015 is not a source of income, and therefore does not trigger the start of an accounting period.
- (2) An accounting period cannot be longer than 12 months, so the period of account ended 31 March 2017 must be split into two accounting periods.
- (3) The move overseas of a majority of Ash Ltd's director/shareholders on 1 October 2017 has no impact on the company's accounting periods.

(ii) Residence status

- (1) Ash Ltd was incorporated in the UK, so the company is therefore resident in the UK throughout the period 1 December 2015 to 31 March 2018. 1
 - (2) The move overseas of a majority of Ash Ltd's director/shareholders on 1 October 2017 does not have any impact on the company's residence status. 1
- 2

(b) Beech Ltd

Corporation tax computation for the year ended 31 January 2018

	£	
Profit before taxation	305,500	
Depreciation	14,700	½
Gifts to customers	3,500	½
Qualifying charitable donations	1,100	½
Impairment loss	0	½
Lease of motor cars (12,600 x 15%)	1,890	1
Data protection fine	6,400	½
Legal fees – Renewal of short lease	0	½
Interest payable	0	½
	<u>333,090</u>	
Trading profit	333,090	
Qualifying charitable donations	(1,100)	½
Taxable total profits	<u>331,990</u>	
Corporation tax		
331,990 x 2/12 at 20%	11,066	½
331,990 x 10/12 at 19%	52,565	½
	<u>63,631</u>	
		<u>6</u>

Tutorial note: Gifts to customers are only an allowable deduction if they cost less than £50 per recipient per year, are not of food, drink, tobacco or vouchers for exchangeable goods and carry a conspicuous advertisement for the company making the gift.

(c) Cedar Ltd

Corporation tax computation for the year ended 31 March 2018

	£	
Disposal proceeds (25,000 x 6.00)	150,000	½
Indexed cost (working)	(38,004)	W
	<u>111,996</u>	
Chargeable gain	111,996	
Capital loss	(8,800)	1
Group relief	(20,800)	½
Loss relief	(19,700)	½
Taxable total profits	<u>62,696</u>	

Working – Indexed cost			Marks
1985 pool	Number	Indexed cost £	
Purchase July 2010	20,000	24,800	½
Rights issue July 2010 20,000 x 1/4 x £1.15	<u>5,000</u>	<u>5,750</u>	1
	25,000	30,550	
Indexation to December 2017 30,550 x 0.244		<u>7,454</u>	1
		38,004	
Disposal December 2017	<u>(25,000)</u>	<u>(38,004)</u>	<u>5</u>
			<u>15</u>

Tutorial note: A joint election can be made so that Cedar Ltd is treated as having incurred Timber Ltd's capital loss.

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

(a) Kat – Income tax	3
Kat – Property	2
LC – Income	1.5
LC – Income tax	2
Saving	0.5
	<hr/>
	9
	<hr/>
(b) Gain	1
	<hr/>
Total marks	10
	<hr/>

32 Martin

(a) Salary and bonuses	1.5
Car benefits	2
Other benefits	1.5
Deductions	1.5
Trading profit	2
Other income	2
PA	0.5
	<hr/>
	11
	<hr/>
(b) (i) Amendment	2
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(ii) Check	2
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Total marks	15
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33 Ash, Beech and Cedar

(a) (i) Periods	2
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(ii) Residence	2
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(b) TTP	5
C/Tax	1
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	6
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(c) Gain	3
Losses	2
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	5
	<hr/>
Total marks	15
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TX-UK Examiner's commentary on September/December 2018 sample questions

This commentary has been written to accompany the published sample question 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 Kat who, on 6 April 2017, was planning to purchase a residential freehold property which was going to be let out. She is unsure whether to purchase the property personally or via a limited company. The limited company will be incorporated for the sole purpose of purchasing and letting out the property, and Kat will hold all of the shares in the company. The company's corporation tax liability was provided in the question.

Part (a) for 9 marks required candidates to determine if there would be an overall saving of tax for the year ended 5 April 2018 if Kat purchased the property via a limited company rather than purchasing it personally. Those candidates who made sure that they understood the scenario and worked carefully through each calculation had no difficulty answering this section.

As warned in previous reports, where a tax figure is given for one of the scenarios (in this case, the corporation tax figure), candidates should never attempt to recalculate the figure for themselves. All this does is use up valuable time. As regards the conclusion, this should have just been a calculation of the tax difference between the two scenarios. There was no need for a detailed explanation.

Where computations are required for two different scenarios, candidates should clearly indicate which scenario is being answered. This is particularly important where some of the same information is used in both scenarios. In this case employment income and the personal allowance were common across both scenarios. Some candidates attempted to answer this question with just the one computation; impossible given that property income formed part of the first computation, with dividend income included in the second.

It should have been quite clear from the information provided that full computations were necessary for both scenarios. Those candidates who calculated the tax liability for a personal purchase and then attempted to adjust the figures for a corporate purchase invariably ended up with a very confused answer.

The personal purchase required candidates to apply the recently introduced restriction whereby relief for 25% of property income finance costs is restricted to the basic rate. Candidates should be particularly aware of such recent tax changes and this is why an annual Finance Act update [article](#) is published.

Working through past examination questions will help candidates familiarise themselves with the best approach to be taken when answering questions which examine more than one tax. Also, it is important that candidates appreciate the interactions that can arise in such questions, and an [article](#) has been published covering many of the scenarios which could be examined.

Part (b) for 1 mark required an explanation of one way in which the calculation of a future taxable gain on a property disposal made by the limited company would differ from the calculation of a taxable gain on a disposal made personally by Kat. Although there were many good answers to this section, some candidates discussed the finance costs restriction when this has nothing to do with taxable gains. All that was required was a brief mention (not a detailed answer) of either the annual exempt amount or indexation allowance.

Question 32

This income tax question involved Martin who was employed by Global plc and was also a member of a partnership. In addition, for the tax year 2017–18, Martin rented out one furnished room of his main residence, received dividends and interest on the maturity of savings certificates from NS&I (National Savings and Investments).

Part (a) for 11 marks required a calculation of Martin's taxable income for the tax year 2017–18. This section was very well answered, and there were many perfect responses. However, the following points should be noted when answering this style of question:

- Candidates should think carefully about which workings can be included as one-line calculations within the main computation and which need their own separate working. For example, there were two car benefit calculations ($£32,800 \times 9\% \times 9/12 = £2,214$, and $£36,400 \times 13\% \times 3/12 = £1,183$) which were easily included within the main computation. The only aspect which warranted a separate working here was the partnership trading profit.
- When calculating Martin's share of the partnership's trading profit, it was only necessary to deal with his share. The allocations made to the other two partners were not relevant.
- Practise as many computations as possible. If this is done, basic mistakes such as claiming capital allowances rather than applying the motor car benefit rules can be avoided.
- As stated in the requirements, candidates should always clearly indicate (by the use of a zero) any items which do not require adjustment. The beneficial loan and the interest on the maturity of savings certificates were exempt, but this needed to be indicated.
- With computations containing both additions and deductions, candidates should be very careful to indicate which is which. A single column approach with deductions shown in brackets avoids any confusion.
- Candidates should appreciate that if expenses are paid privately by an employee, then they cannot possibly be taxable benefits – only a potential deduction against taxable income. In this case, Martin had paid a professional subscription (which was relevant to his employment with Global plc) and a membership fee to a health club (which he used to entertain Global plc's clients). It was clearly stated that Global plc did not reimburse Martin for either of these costs.
- Being aware of which benefits are exempt, such as the beneficial loan not exceeding £10,000, will avoid spending time on unnecessary calculations.
- Reading and understanding a question's requirements will avoid spending a lot of time calculating an income tax liability when it is not needed. The requirement was just to calculate Martin's taxable income.

Part (b)(i) for 2 marks was to advise Martin of the deadline for making an amendment to his self-assessment tax return for the tax year 2017–18, and to state how HM Revenue and Customs (HMRC) will calculate interest if

such an amendment results in additional tax becoming payable. This section was not answered particularly well. The deadline was 31 January 2020, but too many candidates gave a date of 12 months following the submission of Martin's self-assessment tax return.

Answers for TX-UK need to be precise, so the explanation how HMRC will calculate interest should have said that this will be from the original due date (31 January 2019) to the date that the additional tax is paid. A general discussion of how HMRC charges interest was not sufficient.

Part (b)(ii) for 2 marks was to state the latest date by which HMRC will have to notify Martin if they intend to carry out a compliance check in respect of his self-assessment tax return for the tax year 2017–18, and (assuming the check is not made on a completely random basis) the possible reasons why such a check would be made. Although this was better answered than part (b)(i), too many candidates wrote everything they knew on compliance checks rather than focusing on the information given – it being clearly stated that this was not a random check.

Candidates should note that detailed answers are not required where just a few marks are involved as was the case for both aspects of part (b).

Question 33

The corporation tax question involved three unconnected limited companies, Ash Ltd, Beech Ltd and Cedar Ltd.

Ash Ltd was incorporated in the UK on 1 December 2015 and immediately opened a non-interest bearing bank account. The company commenced trading on 1 February 2016, preparing its first accounts for the 14-month period ended 31 March 2017. Accounts were then prepared for the year ended 31 March 2018. At the date of incorporation, all three of Ash Ltd's directors (who each own one-third of the company's ordinary share capital) were based in the UK. However, on 1 October 2017, two of the directors moved overseas. The directors have always held Ash Ltd's board meetings in the UK, and will continue to do so despite two of them moving overseas.

Part (a)(i) for 2 marks was to identify Ash Ltd's accounting periods throughout the period 1 December 2015 to 31 March 2018. This section was quite well answered. However, when considering accounting periods, it is very important not to confuse the corporate and unincorporated business rules. Applying the unincorporated business opening year rules to a limited company will obviously not achieve many marks.

If asked to identify a company's accounting periods throughout a given period (1 December 2015 to 31 March 2018), then candidates should make sure that all relevant periods are stated. It does not create a good impression if there are gaps between the accounting periods stated by a candidate, or if a stated period ends before it has started.

Part (a)(ii) required candidates to explain Ash Ltd's residence status throughout the period 1 December 2015 to 31 March 2018. Again, candidates should be careful not to confuse the rules for companies with those applicable to individuals. If a limited company is incorporated in the UK, then nothing else is relevant. So, as regards the majority of Ash Ltd's director/shareholders moving overseas, candidates should just have stated that this did not have any impact on the company's residence status.

For Beech Ltd, a summarised statement of profit or loss was provided for the year ended 31 January 2018. The requirement for 6 marks was to calculate the company's corporation tax liability for this year. Various adjustments were required, but there were no capital allowances. This section was very well answered.

When making adjustments to a trading profit, candidates need to be very careful that adjustments are correctly added and not deducted. Candidates should take particular note where there has been a change to the rate of corporation tax and a company's accounting period falls across two financial years. This is why question practice is so important. With an accounting period of 31 January 2018, two months of Beech Ltd's taxable total profits fell into the financial year 2016 and were taxed at the applicable 20% rate.

Cedar Ltd had made a chargeable gain on the disposal of a shareholding on 28 December 2017. For the year ended 31 March 2018, the company made a trading loss. Cedar Ltd was a 100% subsidiary company of Timber Ltd, and for the year ended 31 March 2018, Timber Ltd had made a trading loss and also a capital loss.

Part (c) for 5 marks required a calculation of Cedar Ltd's taxable total profits for the year ended 31 March 2018. This was on the basis that all available claims and elections were made. This section was again well answered. When calculating chargeable gains for a corporate share disposal, then carefully check the dates that have been given. There was a rights issue which had taken place in the month of purchase, so there was no need to index prior to adding the new shares into the share pool.