Fundamentals Pilot Paper – Skills module

Taxation
(United Kingdom)

Time allowed
Reading and planning: 15 minutes
Writing: 3 hours

ALL FIVE questions are compulsory and MUST be attempted.
Rates of tax and tables are printed on pages 2–4.

Do NOT open this paper until instructed by the supervisor.

During reading and planning time only the question paper may be annotated. You must NOT write in your answer booklet until instructed by the supervisor.

This question paper must not be removed from the examination hall.

The Association of Chartered Certified Accountants

Paper F6 (UK)

ACCA

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

Income Tax

		%
Starting rate	£1 – £2,150	10
Basic rate	£2,151 – £33,300	22
Higher rate	£33,301 and above	40

Personal Allowance

Personal allowance	£5,035
Personal allowance aged 65 to 74	£7,280
Personal allowance aged 75 and over	£7,420
Income limit for age related allowances	£20,100

Car Benefit Percentage

The base level of CO_2 emissions is 140 grams per kilometre.

Car Fuel Benefit

The base figure for calculating the car fuel benefit is £14,400

Pension Scheme Limits

Annual allowance	£215,000

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

Capital Allowances

		%
Plant and machinery		
Writing-down allowance		25
First-year allowance	– Plant and machinery	40
	– Low emission motor cars (CO_2 emissions of less than 120 grams per kilometre)	100

For small businesses only: the rate of plant and machinery first-year allowance is increased to 50% for the period from 1 April 2006 to 31 March 2007 (6 April 2006 to 5 April 2007 for unincorporated businesses).

Long-life assets

Writing-down allowance	6
Industrial buildings Writing-down allowance	4

Corporation Tax

Financial year	2004	2005	2006
Small companies rate	19%	19%	19%
Full rate	30%	30%	30%
Lower limit	300,000	300,000	300,000
Upper limit	1,500,000	1,500,000	1,500,000
Marginal relief fraction	11/400	11/400	11/400

Marginal Relief

(M – P) x I/P x Marginal relief fraction

Value Added Tax

	£
Registration limit	61,000
Deregistration limit	59,000

Capital Gains Tax: Annual Exemption

Individuals	£8,800

Capital Gains Tax: Taper Relief

Complete years after 5 April 1998 for which asset held	Gains on business assets	Gains on non-business assets
1	50%	100%
2	25%	100%
3	25%	95%
4	25%	90%
5	25%	85%
6	25%	80%
7	25%	75%
8	25%	70%
9	25%	65%
10	25%	60%

National Insurance Contributions
(Not contracted out rates)

		%
Class 1 Employee	£1 – £5,035 per year	Nil
	£5,036 – £33,540 per year	11.0
	£33,541 and above per year	1.0
Class 1 Employer	£1 – £5,035 per year	Nil
	£5,036 and above per year	12.8
Class 1A		12.8
Class 2	£2.10 per week	
Class 4	£1 – £5,035 per year	Nil
	£5,036 – £33,540 per year	8.0
	£33,541 and above per year	1.0

Rates of Interest

Official rate of interest:	5.0%	
Rate of interest on underpaid tax:	6.5%	(assumed)
Rate of interest on overpaid tax:	2.25%	(assumed)

Calculations and workings need only be made to the nearest £.
All apportionments may be made to the nearest month.
All workings should be shown.

ALL FIVE questions are compulsory and MUST be attempted

1 On 31 December 2006 Mark Kett ceased trading as a marketing consultant. He had been self-employed since 6 April 2001, and had always made his accounts up to 5 April. On 1 January 2007 Mark commenced employment as the marketing manager of Sleep-Easy plc. The company runs a hotel. The following information is available for the tax year 2006–07:

Self-employment

(1) Mark's tax adjusted trading profit for the nine-month period ended 31 December 2006 is £19,200. This figure is before taking account of capital allowances.

(2) The tax written down values for capital allowances purposes at 6 April 2006 were as follows:

	£
General pool	13,800
Expensive motor car	14,600

The expensive motor car was used by Mark, and 40% of the mileage was for private purposes.

(3) On 15 June 2006 Mark had purchased office furniture for £1,900. All of the items included in the general pool were sold for £18,800 on 31 December 2006. On the cessation of trading Mark personally retained the expensive motor car. Its value on 31 December 2006 was £11,800.

Employment

(1) Mark is paid a salary of £3,250 (gross) per month by Sleep-Easy plc, from which income tax of £620 per month has been deducted under PAYE.

(2) During the period from 1 January 2007 to 5 April 2007 Mark used his private motor car for business purposes. He drove 2,500 miles in the performance of his duties for Sleep-Easy plc, for which the company paid an allowance of 16 pence per mile. The relevant HM Revenue & Customs authorised mileage rate to be used as the basis of an expense claim is 40 pence per mile.

(3) On 1 January 2007 Sleep-Easy plc provided Mark with an interest free loan of £80,000 so that he could purchase a new main residence.

(4) During the period from 1 January 2007 to 5 April 2007 Mark was provided with free meals in Sleep-Easy plc's staff canteen. The total cost of these meals to the company was £400.

Property income

(1) Mark let out a furnished property throughout the tax year 2006-07. He received gross rents of £8,600, 5% of which was paid to a letting agency. During December 2006 Mark spent £540 on replacing dilapidated furniture and furnishings.

(2) From 6 April 2006 to 31 December 2006 Mark let out a spare room in his main residence, receiving rent of £350 per month.

Investment income

(1) During the tax year 2006–07 Mark received dividends of £2,880, interest from government stocks (gilts) of £1,900, and interest of £430 from an individual savings account (ISA). These were the actual cash amounts received.

(2) On 3 May 2006 Mark received a premium bond prize of £100.

Other information

(1) On 15 December 2006 Mark made a gift aid donation of £780 (net) to a national charity.

(2) Mark's payments on account of income tax in respect of the tax year 2006–07 totalled £11,381.

Required:

(a) Compute the income tax payable by Mark for the tax year 2006–07, and the balancing payment or repayment that will be due for the year. (22 marks)

(b) Advise Mark as to how long he must retain the records used in preparing his tax return for the tax year 2006–07, and the potential consequences of not retaining the records for the required period. (3 marks)

(25 marks)

2 (a) Scuba Ltd is a manufacturer of diving equipment. The following information is relevant for the year ended 31 December 2006:

Operating profit

The operating profit is £170,400. The expenses that have been deducted in calculating this figure include the following:

	£
Depreciation and amortisation of lease	45,200
Entertaining customers	7,050
Entertaining employees	2,470
Gifts to customers (diaries costing £25 each displaying Scuba Ltd's name)	1,350
Gifts to customers (food hampers costing £80 each)	1,600

Leasehold property

On 1 April 2006 Scuba Ltd acquired a leasehold office building that is used for business purposes. The company paid a premium of £80,000 for the grant of a twenty-year lease.

Purchase of industrial building

Scuba Ltd purchased a new factory from a builder on 1 July 2006 for £240,000, and this was immediately brought into use. The cost was made up as follows:

	£
Drawing office serving the factory	34,000
General offices	40,000
Factory	98,000
Land	68,000
	240,000

Plant and machinery

On 1 January 2006 the tax written down values of plant and machinery were as follows:

	£
General pool	47,200
Expensive motor car	22,400

The following transactions took place during the year ended 31 December 2006:

		Cost/ (Proceeds) £
3 January 2006	Purchased machinery	22,800
29 February 2006	Purchased a computer	1,100
4 May 2006	Purchased a motor car	10,400
18 August 2006	Purchased machinery	7,300
15 November 2006	Sold a lorry	(12,400)

The motor car purchased on 4 May 2006 for £10,400 is used by the factory manager, and 40% of the mileage is for private journeys. The lorry sold on 15 November 2006 for £12,400 originally cost £19,800.

Scuba Ltd is a small company as defined by the Companies Acts.

Property income

Scuba Ltd lets a retail shop that is surplus to requirements. The shop was let until 31 December 2005 but was then empty from 1 January 2006 to 30 April 2006. During this period Scuba Ltd spent £6,200 on decorating the shop, and £1,430 on advertising for new tenants. The shop was let from 1 May 2006 to 31 December 2006 at a quarterly rent of £7,200, payable in advance.

Interest received

Interest of £430 was received from HM Revenue & Customs on 31 October 2006 in respect of the overpayment of corporation tax for the year ended 31 December 2005.

Other information

Scuba Ltd has no associated companies, and the company has always had an accounting date of 31 December.

Required:

(i) Compute Scuba Ltd's tax adjusted trading profit for the year ended 31 December 2006. You should ignore value added tax (VAT); (15 Marks)

(ii) Compute Scuba Ltd's corporation tax liability for the year ended 31 December 2006. (4 marks)

(b) Scuba Ltd registered for value added tax (VAT) on 1 April 2004. The company's VAT returns have been submitted as follows:

Quarter ended	VAT paid/ (refunded) £	Submitted
30 June 2004	18,600	One month late
30 September 2004	32,200	One month late
31 December 2004	8,800	On time
31 March 2005	3,400	Two months late
30 June 2005	(6,500)	One month late
30 September 2005	42,100	On time
31 December 2005	(2,900)	On time
31 March 2006	3,900	On time
30 June 2006	18,800	On time
30 September 2006	57,300	Two months late
31 December 2006	9,600	On time

Scuba Ltd always pays any VAT that is due at the same time that the related return is submitted.

During February 2007 Scuba Ltd discovered that a number of errors had been made when completing its VAT return for the quarter ended 31 December 2006. As a result of these errors the company will have to make an additional payment of VAT to HM Revenue & Customs.

Required:

(i) State, giving appropriate reasons, the default surcharge consequences arising from Scuba Ltd's submission of its VAT returns for the quarter ended 30 June 2004 to the quarter ended 30 September 2006 inclusive. (8 marks)

(ii) Explain how Scuba Ltd can voluntarily disclose the errors relating to the VAT return for the quarter ended 31 December 2006, and state whether default interest will be due, if (1) the net errors in total are less than £2,000, and (2) the net errors in total are more than £2,000. (3 marks)

(30 marks)

3 Paul Opus disposed of the following assets during the tax year 2006–07:

(1) On 10 April 2006 Paul sold 5,000 £1 ordinary shares in Symphony Ltd, an unquoted trading company, for £23,600. He had originally purchased 40,000 shares in the company on 23 June 2004 for £110,400.

(2) On 15 June 2006 Paul made a gift of his entire shareholding of 10,000 £1 ordinary shares in Concerto plc to his daughter. On that date the shares were quoted on the Stock Exchange at £5.10–£5.18, with recorded bargains of £5.00, £5.15 and £5.22. Paul's shareholding had been purchased on 29 April 1992 for £14,000. The shareholding is less than 1% of Concerto plc's issued share capital, and Paul has never been employed by Concerto plc. The indexation factor from April 1992 to April 1998 is 0.170, and from April 1992 to June 2006 it is 0.297.

(3) On 9 August 2006 Paul sold a motor car for £16,400. The motor car had been purchased on 21 January 2003 for £12,800.

(4) On 4 October 2006 Paul sold an antique vase for £8,400. The antique vase had been purchased on 19 January 2006 for £4,150.

(5) On 31 December 2006 Paul sold a house for £220,000. The house had been purchased on 1 April 2000 for £114,700. Paul occupied the house as his main residence from the date of purchase until 30 June 2003. The house was then unoccupied until it was sold on 31 December 2006.

(6) On 16 February 2007 Paul sold three acres of land for £285,000. He had originally purchased four acres of land on 17 July 2005 for £220,000. The market value of the unsold acre of land as at 16 February 2007 was £90,000. The land has never been used for business purposes.

(7) On 5 March 2007 Paul sold a freehold holiday cottage for £125,000. The cottage had originally been purchased on 28 July 2005 for £101,600 by Paul's wife. She transferred the cottage to Paul on 16 November 2006 when it was valued at £114,800. The cottage is not a business asset for taper relief purposes.

Paul's taxable income for the tax year 2006–07 is £15,800.

Required:

Compute Paul's capital gains tax liability for the tax year 2006–07, and advise him by when this should be paid.

(20 marks)

4 Li Fung commenced in self-employment on 1 October 2002. She initially prepared accounts to 30 June, but changed her accounting date to 31 March by preparing accounts for the nine-month period to 31 March 2006. Li's trading profits since she commenced self-employment have been as follows:

	£
Nine-month period ended 30 June 2003	18,600
Year ended 30 June 2004	24,900
Year ended 30 June 2005	22,200
Nine-month period ended 31 March 2006	16,800
Year ended 31 March 2007	26,400

Required:

(a) State the qualifying conditions that must be met for a change of accounting date to be valid. (3 marks)

(b) Compute Li's trading income assessments for each of the five tax years 2002–03, 2003–04, 2004–05, 2005–06 and 2006–07. (9 marks)

(c) Advise Li of the advantages and disadvantages for tax purposes of changing her accounting date from 30 June to 31 March. (3 marks)

(15 marks)

5 Loser Ltd's results for the year ended 30 June 2004, the nine month period ended 31 March 2005, the year ended 31 March 2006 and the year ended 31 March 2007 are as follows:

	Year ended 30 June 2004	Period ended 31 March 2005	Year ended 31 March 2006	Year ended 31 March 2007
	£	£	£	£
Trading profit/(loss)	86,600	(25,700)	27,300	(78,300)
Property business profit	–	4,500	8,100	5,600
Charges on income	(1,400)	(800)	(1,200)	(1,100)

The charges on income are all donations to a national charity paid under the gift aid scheme.

Loser Ltd does not have any associated companies.

Required:

(a) **State the factors that will influence a company's choice of loss relief claims. You are not expected to consider group relief.** (3 marks)

(b) **Assuming that Loser Ltd claims relief for its losses as early as possible, compute the company's profits chargeable to corporation tax for the year ended 30 June 2004, the nine month period ended 31 March 2005, the year ended 31 March 2006 and the year ended 31 March 2007. Your answer should clearly identify the amount of any losses that are unrelieved.** (5 marks)

(c) **Explain how your answer to (b) above would have differed if Loser Ltd had ceased trading on 31 March 2007.** (2 marks)

(10 marks)

End of Question Paper

Answers

1 (a) Mark Kett – Income tax computation 2006–07

	£	£
Trading profit		19,200
Capital allowances		1,420
		20,620
Employment income		
Salary (3,250 x 3)	9,750	
Beneficial loan	1,000	
Staff canteen	–	
	10,750	
Expense claim	600	
		10,150
Property business profit		7,310
Interest from government stocks		1,900
Dividends (2,880 x 100/90)		3,200
Individual savings account interest		–
Premium bond prize		–
		43,180
Personal allowance		5,035
Taxable income		38,145
Income tax		
2,150 at 10%		215
30,895 (38,145–3,200–1,900–2,150) at 22%		6,797
1,255 (32,150–30,895) at 20%		251
645 (1,900–1,255) at 40%		258
3,200 at 32.5%		1,040
		38,145
Income tax liability		8,561
Tax suffered at source		
PAYE (620 x 3)	1,860	
Dividends (3,200 at 10%)	320	
		2,180
Income tax payable		6,381

(1) A balancing repayment of £5,000 (11,381–6,381) will be due for 2006-07.

(2) Capital allowances are as follows:

	Pool	Motor car		Allowances
	£	£		£
WDV brought forward	13,800	14,600		
Addition	1,900			
	15,700			
Disposals	18,800	11,800		
Balancing charge	(3,100)			(3,100)
Balancing allowance		2,800	x 60%	1,680
				(1,420)

(3) The taxable benefit from the beneficial loan is £1,000 (80,000 at 5% x 3/12).

(4) The provision of meals in a staff canteen does not give rise to a taxable benefit.

(5) The mileage allowance received will be tax-free.

(6) Mark can make the following expense claim:

	£
2,500 miles at 40p	1,000
Mileage allowance 2,500 at 16p	400
	600

(7) The property business profit is calculated as follows:

	£	£
Rent receivable		8,600
Agency fees (8,600 at 5%)	430	
Wear and tear allowance (8,600 at 10%)	860	1,290
Property business profit		7,310

(8) No deduction is available for furniture and furnishings where the wear and tear is claimed.

(9) Mark's property income from the rent of his spare room is less than £4,250 (350 x 9 = £3,150), and it is therefore exempt under the rent-a-room scheme.

(10) Interest from individual savings accounts and premium bond prizes are exempt from income tax.

(11) Mark's basic rate tax band is extended by £1,000 (780 x 100/78) to £32,150 (31,150 + 1,000) as a result of making the gift aid donation.

(b) (1) The business records relating to self-employment and property income must be retained until five years after the filing date, which is 31 January 2013.

(2) As Mark is in business during 2006–07, all of his other records relating to employment and investment income must also be retained until the same date.

(3) A failure to retain records for 2006–07 can result in a penalty of up to £3,000. However, the maximum penalty will only be charged in serious cases.

2 (a) Scuba Ltd – Trading profit for the year ended 31 December 2006

	£	£
Operating profit	170,400	
Depreciation and amortisation of lease	45,200	
Entertaining	7,050	
Gifts to customers	1,600	
Deduction for lease premium (working 1)		1,860
Capital allowances – IBA (working 2)		6,880
– P & M (working 3)		27,510
	224,250	36,250
	36,250	
Trading profit	188,000	

(1) Entertainment expenditure is not allowable except for expenditure relating to employees.

(2) Gifts to customers are 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.

Working 1 – Deduction for lease premium

(1) The office building is used for business purposes, and so a proportion of the lease premium assessed on the landlord can be deducted.

(2) The amount assessed on the landlord is £49,600 calculated as follows:

	£
Premium received	80,000
Less: 80,000 x 2% x (20 – 1)	30,400
	49,600

(3) This is deductible over the life of the lease, starting from 1 April 2006, so the deduction for the year ended 31 December 2006 is £1,860 (49,600/20 = 2,480 x 9/12).

Working 2 – Industrial buildings allowance

	£
Drawing office	34,000
General offices	40,000
Factory	98,000
Eligible expenditure	172,000
Industrial buildings allowance at 4%	6,880

(1) The cost of the land does not qualify.

(2) The general offices qualify as they cost less than 25% of the total qualifying cost (172,000 x 25% = £43,000).

Working 3 – Plant and machinery

	£	Pool £	Motor car £	Allowances £
WDV brought forward		47,200	22,400	
Addition		10,400		
		57,600		
Proceeds		12,400		
		45,200		
WDA – 25%		11,300		11,300
WDA – Restricted			3,000	3,000
		33,900		
Additions qualifying for FYA				
Machinery	22,800			
Computer	1,100			
	23,900			
FYA – 40%	9,560			9,560
		14,340		
Machinery	7,300			
FYA – 50%	3,650			3,650
		3,650		
WDV carried forward		51,890	19,400	27,510

(1) The cost of the lorry will have originally been added to the pool, so the disposal proceeds are now deducted.

(2) The private use of the motor car purchased on 4 May 2006 is irrelevant, since such usage will be assessed on the employee as a benefit.

Scuba Ltd – Corporation tax computation for the year ended 31 December 2006

	£	£
Trading profit		188,000
Property business profit (working)		11,570
Interest		430
PCTCT		200,000
Corporation tax (200,000 at 19%)		38,000

Working – Property business profit

	£	£
Rent receivable (7,200/3 = 2,400 x 8)		19,200
Decorating	6,200	
Advertisements	1,430	
		7,630
Property business profit		11,570

(b) Default surcharge

(1) The late submission of the VAT return for the quarter ended 30 June 2004 will have resulted in HM Revenue & Customs issuing a surcharge liability notice specifying a surcharge period running to 30 June 2005.

(2) The late payment of VAT for the quarter ended 30 September 2004 will have resulted in a surcharge of £644 (32,200 x 2%).

(3) The late payment of VAT for the quarter ended 31 March 2005 will have resulted in a surcharge of £170 (3,400 x 5%), but this will not have been collected as it was less than £400.

(4) Although the VAT return for the quarter ended 30 June 2005 was submitted late, this will not have resulted in a surcharge as Scuba Ltd was due a refund for this period.

(5) The continued late submission of VAT returns will have resulted in the surcharge period being extended to 30 September 2005, then to 31 March 2006, and finally to 30 June 2006.

(6) Scuba Ltd then submitted the four consecutive VAT returns during the surcharge period running to 30 June 2006 on time, and so will have reverted to a clean default surcharge record.

(7) The late submission of the VAT return for the quarter ended 30 September 2006 will therefore simply have resulted in a surcharge liability notice specifying a surcharge period running to 30 September 2007.

Errors on VAT return

(1) If the net errors total less than £2,000 then they can be voluntarily disclosed by simply entering them on the VAT return for the quarter ended 31 March 2007.

(2) If the net errors total more than £2,000 then they can be voluntarily disclosed, but disclosure must be made separately to HM Revenue & Customs.

(3) Default interest will be charged if the net errors total more than £2,000, but not if they are less than £2,000.

3 (a) Paul Opus – CGT liability 2006–07

	£	£
Ordinary shares in Symphony Ltd		
Disposal proceeds	23,600	
Cost (110,400 x 5,000/40,000)	13,800	
	9,800	
Taper relief (9,800 x 50% (100% – 50%))	4,900	
		4,900
Ordinary shares Concerto plc		
Deemed proceeds (10,000 x £5.11)	51,100	
Cost	14,000	
	37,100	
Indexation 14,000 x 0.170	2,380	
	34,720	
Taper relief (34,720 x 35% (100% – 65%))	12,152	
		22,568
Antique vase		4,000
House		
Disposal proceeds	220,000	
Cost	114,700	
	105,300	
Principal private residence exemption	97,500	
	7,800	
Taper relief (7,800 x 20% (100% – 80%))	1,560	
		6,240
Land		
Disposal proceeds	285,000	
Cost	167,200	
		117,800
Holiday cottage		
Disposal proceeds	125,000	
Cost	101,600	
		23,400
Chargeable gains		178,908
Annual exemption		8,800
Taxable gains		170,108

		£	£
Capital gains tax	17,500 (33,300 – 15,800) at 20%		3,500
	152,608 (170,108 – 17,500) at 40%		61,043
			64,543
Due date			31 January 2008

(1) The shares in Symphony Ltd are a business asset, and taper relief is based on one complete year of ownership.

(2) The shares in Concerto plc are valued at the lower of £5.12 (£5.10 + ¼(£5.18 – £5.10)) and £5.11 ((£5.00 + £5.22)/2).

(3) The shares in Concerto plc are a non-business asset, and taper relief is based on nine complete years of ownership (eight years plus the bonus year).

(4) Motor cars are exempt from CGT.

(5) The antique vase is a non-wasting chattel. The gain is restricted to £4,000 (8,400 – 6,000 = 2,400 x 5/3) as this is less than £4,250 (8,400 – 4,150).

(6) The total period of ownership of the house is 81 months, of which a total of 75 months (period of occupation plus final 36 months) qualify for exemption. The exemption is therefore £97,500 (105,300 x 75/81).

(7) The cost relating to the three acres of land sold is £167,200 (220,000 x 285,000/375,000 (285,000 + 90,000)).

(8) The transfer of the holiday cottage between Paul and his wife is effectively ignored for CGT purposes, so the wife's original cost is used in calculating Paul's capital gain.

4 **(a)** (1) The change of accounting date must be notified to HM Revenue & Customs by the 31 January following the tax year in which the change is made.

(2) The first accounts to the new accounting date must not exceed 18 months in length.

(3) There must not have been a change of accounting date within the preceding five tax years, although this does not apply if the present change is made for genuine commercial reasons.

(b)

		£
2002–03	(1 October 2002 to 5 April 2003) 18,600 x 6/9	12,400
2003–04	(1 October 2002 to 30 September 2003) 18,600 + 6,225 (24,900 x 3/12)	24,825
2004–05	(Year ended 30 June 2004)	24,900
2005–06	(1 July 2004 to 31 March 2006)	
	Year ended 30 June 2005	22,200
	Period ended 31 March 2006	16,800
		39,000
	Relief for overlap profits 12,400 + 6,225	18,625
		20,375
2006–07	(Year ended 31 March 2007)	26,400

(1) The assessment for 2003–04 is the first twelve months of trading as the accounting date falling in that year is less than twelve months from the commencement of trading.

(2) In 2003–04 there are overlap profits of £12,400 in respect of the six-month period 1 October 2002 to 5 April 2003.

(3) In 2004–05 there are overlap profits of £6,225 in respect of the three-month period 1 July 2003 to 30 September 2003.

(4) The basis period for 2005–06 is 21 months long. Therefore all nine months of overlap profits are relieved so that only twelve months worth of profits are assessed in this year.

(c) (1) If Li changes her accounting date from 30 June to 31 March the application of the basis period rules will be simplified.

(2) The maximum assessment in the year of cessation will be for twelve months.

(3) Li's existing overlap profits are fully utilised as a result of the change. Otherwise, these overlap profits would not be relieved until the cessation of trading.

(4) The disadvantage is that the interval between earning profits and paying the related tax liability will be nine months shorter with an accounting date of 31 March.

5 **(a)** (1) The rate of corporation tax at which relief will be obtained, with preference being given to profits charged at the marginal rate of 32.75% or the full rate of 30%.

(2) The timing of the relief obtained, with a claim against total profits under s.393A ICTA 1988 resulting in earlier relief than a claim under s.393(1) ICTA 1988 against future trading profits.

(3) The extent to which relief for charges on income will be lost, since these cannot be carried forward.

(b)

	Year ended 30 June 2004	Period ended 31 March 2005	Year ended 31 March 2006	Year ended 31 March 2007
	£	£	£	£
Trading profit	86,600	–	27,300	–
Property business profit	–	4,500	8,100	5,600
	86,600	4,500	35,400	5,600
Loss relief s.393A	21,200	4,500	35,400	5,600
	65,400	–	–	–
Charge on income	1,400	–	–	–
PCTCT	64,000	–	–	–

(1) The balance of the trading loss for the period ended 31 March 2005 (25,700 – 4,500 = £21,200) is carried back to the year ended 30 June 2004.

(2) The amount of the unrelieved trading loss for the year ended 31 March 2007 is £37,300 (78,300 – 5,600 – 35,400).

(c) (1) The trading loss for the final twelve months of trading can be relieved against total profits for the previous 36 months under s.393A ICTA 1988.

(2) Therefore the unrelieved losses of £37,300 could have been carried back and fully set off in the year ended 30 June 2004.

			Marks
1	(a)	**Trading profit**	0.5
		Capital allowances – Pool	2
		– Motor car	2
		Employment income	1
		Beneficial loan	1
		Staff canteen	0.5
		Expense claim	1.5
		Property business profit	2
		Furniture and furnishings	0.5
		Rent-a-room scheme	1
		Interest from government stocks	1
		Dividends	1
		Individual savings account	0.5
		Premium bond prize	0.5
		Personal allowance	0.5
		Extension of basic rate band	1
		Income tax	2.5
		Tax suffered at source – PAYE	1
		– Dividends	1
		Balancing repayment	1
			22
	(b)	Business records	1
		Other records	1
		Penalty	1
			3
			25
2	(a)	**Trading profit**	
		Operating profit	0.5
		Depreciation and amortisation	0.5
		Entertaining	1
		Gifts to customers	1
		Lease premium – Assessable amount	1.5
		– Deduction	1.5
		IBA – Land	0.5
		– General offices	1
		– Eligible expenditure	1
		– Allowance	1
		P & M – Pool	2
		– Motor car	1
		– 50% FYA	1
		– 40% FYA	1.5
			15
		Corporation tax computation	
		Trading profit	0.5
		Property business profit – Rent receivable	1
		– Expenses	1
		Interest	1
		Corporation tax	0.5
			4

			Marks
	(b)	**Default surcharge**	
		Quarter ended 30 June 2004	1
		Quarter ended 30 September 2004	1
		Quarter ended 31 March 2005	2
		Quarter ended 30 June 2006	1
		Extension of surcharge period	1
		Four consecutive VAT returns on time	1
		Quarter ended 30 September 2006	1
			8
		Errors on VAT return	
		Net errors of less than £2,000	1
		Net errors of more than £2,000	1
		Default interest	1
			3
			30

		Marks
3	Symphony Ltd – Proceeds	0.5
	– Cost	1
	– Taper relief	1.5
	Concerto plc – Proceeds	2
	– Cost	0.5
	– Indexation	1
	– Taper relief	1.5
	Motor car	0.5
	Antique vase	2
	House – Proceeds	0.5
	– Cost	0.5
	– Exemption	2
	– Taper relief	1
	Land – Proceeds	0.5
	– Cost	2
	Holiday cottage	1
	Annual exemption	0.5
	Capital gains tax	1
	Due date	0.5
		20

			Marks
4	**(a)**	Notification	1
		18 month limit	1
		Change within five years	3
	(b)	Assessments – 2002-03	
		– 2003–04	
		– 2004–05	
		– 2005–06	
		– 2006–07	0.5
		Overlap profits – 2003–04	1
		– 2004–05	1
		– Relieved in 2005–06	1
			9
	(c)	Simplification	0.5
		Assessment in year of cessation	0.5
		Overlap profits	1
		Disadvantages	1
			3
			15

			Marks
5	(a)	Rate of corporation tax	1
		Timing of relief	1
		Charges on income	1
			3
	(b)	Trading profit	0.5
		Property business profit	0.5
		Loss relief s.393A ICTA 1988	2
		Charges on income	1
		Unrelieved trading loss	1
			5
	(c)	Extension of relief	1
		Year ended 30 June 2004	1
			2
			10