May 2017 Examination

PAPER 4

Corporate Taxation

Part I Suggested Answers

1

	General pool	Special rate pool	Short life asset	Allowances	marks
		£	£	£	
WDV b/fwd	18,000	20,000			
<u>Additions</u>					
Cold room	35,000				(1/2)
Shelving	8,250				(1/2)
Lift		50,000			(1/2)
Computer equipment			20,000		(1/2)
	61,250	70,000	20,000		
WDA 18%	(11,025)		(3,600)	14,625	(1)
WDA 8%		(5,600)		5,600	(1/2)
WDV c/fwd	50,225	64,400	16,400	20,225	

No allowances on front door as not classed as plant (1/2)

4 marks

2

	£	£	
Dr Corporation Tax Creditor	14,500		(1/2)
Cr Bank		14,500	(1/2)
Dr Corporation Tax creditor	500		(1/2)
Cr Corporation Tax charge (P&L a/c)		500	(1/2)

<u>Deferred tax provision</u>

Timing difference = £3,000 (£5,000 - £2,000) x 20% = £600 (1)

	£	£	
Dr Deferred taxation provision	600		(1/2)
Cr Deferred taxation charge (P&L a/c)		600	(1/2)

4 marks

3

Incorporation relief is available to Everett if the following conditions are met:

- All business assets, including the business premises (1/2), are transferred. (However, cash may be retained.)
- Consideration is given wholly or partly in shares, with the deferred gain being calculated with reference to the proportion of the total consideration given in shares.(1)
- The business is transferred as a going concern. (1/2)

The gain on all assets is rolled over against the base cost of the shares in the new company. (1/2)

The other relief available to Everett is gift relief, which is available if business assets are transferred to the company either for no consideration or for consideration of less than their market value. (1/2)

Gift relief is used specifically where a sole trader does not want to transfer all business assets (1/2), therefore Everett can retain the business premises whilst claiming gift relief to defer the gains on the assets transferred. (1/2)

Gains will be calculated on each asset and rolled over against the base cost of the asset transferred. (1/2)

Max 4 marks

4

Taxable profit is calculated using income tax rules (1/2) and then allocated in the relevant profit sharing ratio for the partners who are individuals. (1/2)

Taxable profit is then recalculated using corporation tax rules as if the partnership was a UK resident company. (1/2)

The taxable profit is then allocated in the relevant profit sharing ratio for the corporate partners. (1/2)

2 marks

5

There will be a need to calculate a deemed salary payment. (1/2)

The deemed salary payment is calculated by taking the income received by the company (1/2) and deducting 5% of turnover from this amount. (1/2)

The resulting gross deemed payment will be subject to Employers' National Insurance at the rate of 13.8% / 113.8% to the extent that it exceeds the lower limit of £8,112. (1/2)

Brian will be subject to PAYE and National Insurance on the resulting net deemed payment. (1/2)

Max 2 marks

6

Desk – the gain is exempt as proceeds are less than £6,000 and the desk would be classed as a non-wasting chattel. (1/2)

Painting – again the painting is a non-wasting chattel but as the proceeds exceed £6,000 the gain is the lower of the gain calculated in the usual way compared with 5/3 x (gross proceeds - £6,000)

Gain calculated in the normal way:

	£	
Proceeds	9,000	
Less: cost	(500)	
Gain before indexation	8,500	(1/2)

Compared to: 5/3 x (£9,000 - £6,000) = £5,000 (1)

Lower gain is therefore £5,000. (1/2)

Therefore tax payable: £5,000 x 20% = £1,000 (1/2)

3 marks

7

Class 1A NIC is payable by Merton Ltd (1/2) on the cash equivalent of the benefit of the car at a rate of 13.8 %. (1/2) No NIC is payable in respect of the fuel as it is for business purposes. (1/2)

The Class 1A NIC is payable by 19 July following the end of the year (or 22 July if paid electronically). (1/2)

2 marks

8

	£	
Profit per accounts	64,000	
Add:		
Legal fees in respect of new lease	750	(1/2)
Depreciation	14,000	(1/2)
Less:		
Capital allowances	(5,000)	(1/2)
Rental income	(7,500)	(1/2)
Trading profit	66,250	(1/2)
Trade profit	66,250	
Other income		
UK property business	7,500	(1/2)
Taxable Total Profits	73,750	(1/2)
Corporation Tax at 20%	14,750	(1/2)

4 marks

9

	£	
Proceeds (£375 x 400)	150,000	(1/2)
Cost (£25 x 400)	(10,000)	(1/2)
	140,000	
Annual exemption	(11,100)	(1/2)
Gain	128,900	
Capital Gains Tax – 10%	12,890	(1/2)

2 marks

10

Marvin's Confectionery Ltd is a close company (1/2) as it is owned by five or fewer participators. (1/2)

As Alf is a participator (1/2), he will be treated as receiving a dividend. (1/2)

The value of the dividend will be calculated using normal car benefit rules. (1/2)

The dividend may fall within the dividend allowance of £5,000 (1/2) or be taxed at a rate of 7.5%, 32.5% or 38.1%. (1/2)

The company will not be able to claim tax relief on the cost of providing the car to Alf (1/2) as the cost is treated as an appropriation of company profits. (1/2)

Max 3 marks

11

Accounting period	**Filing date**	
1 January 2015 – 30 June 2015	30 June 2016	(1)
1 July 2015 – 30 June 2016	31 December 2017	(1)
1 July 2016 – 31 December 2016	31 December 2017	(1)

3 marks

12

The date of disposal is when 'arrangements for sale' come into force. (1/2)

Arrangements for sale include:

1) Offer accepted subject to contract. (1/2)
2) Approval of sale by shareholders (if required). (1/2)

Meyrick Ltd – loss available for group relief - £80,000 x 3/12 = £20,000 (1/2)

Barton Ltd – profits available to offer for group relief - £100,000 x 3/12 = £25,000 (1/2)

Therefore maximum group relief available = £20,000. (1/2)

3 marks

13

Goods or services must have been supplied, accounted for and output VAT paid on the supply. (1/2)

Part or the whole of the consideration must have been written off in the accounting records. (1/2)

Six months must have passed since the later of the due date of the invoice and the date of supply. (1/2)

The claim must be made within 4 years and 6 months from the later of the date of supply or due date. (1/2)

2 marks

14

An SME company with a loss can surrender all or part of that loss for a tax credit. (1/2)

The surrenderable loss will be the lower of

1) The unrelieved trading loss (1/2)
2) 230% of the qualifying research and development expenditure (1/2)

A tax credit is given equivalent to 14.5% of the surrenderable loss. (1/2)

2 marks