Level 4 Trailblazer

Role Simulation

SUGGESTED SOLUTIONS

SAMPLE

Professional marks are awarded for quality of communication. This includes using a suitable format, writing for the intended recipient, clarity, courtesy, appropriate written style, directly addressing the task set, relevance to the information available and avoiding superfluous material.

Credit will be given for alternative valid points.

Credit will be given where possible where a candidate makes an error and then carries on a task correctly.

Total marks 100; pass mark 70; distinction 90

Task 1

Spotless Partners

Revised Capital Allowances - year ended 31 December 2016

	AIA	General Pool	Special Rate Pool	Computer 75% PU	Total
	£	£	£	£	£
TWDV b/f		7,000	13,800		
Additions:					
Dry cleaning machine (1)	0				
EPOS till (2)	1,400				
Loxhall Car (152 g/km) (3)			14,300		
Computer (4)				1,299	
	1,400	7,000	28,100	1,299	
AIA (max £200,000)	(1,400)				1,400
Private use asset: AIA				(1,299)	
Restrict £1,299 @ 25%					325
WDA @ 18%		(1,260)			1,260
WDA @ 8%			(2,248)		2,248
Total allowances					**£5,233**
TWDV c/f		5,740	25,852		

Notes

1. There were more than 4 months between purchase and the date on which payment was required for the dry-cleaning machine. This means relief may not be claimed until the year ended 31 December 2017.
2. VAT of £1,680 x 1/6 = £280 recovered. Capital allowances should be claimed on the VAT exclusive amount of £1,400.
3. Emissions of 150g/km mean that the car must go into the special rate pool and receive WDAs at 8% rather than into the main pool.
4. Use of the computer was 25% business, 75% private.

Effect on tax returns

The difference in capital allowances is £39,592 - £5,233 = a drop of £34,359.
Each partner's profits will be £34,359/2 = £17,180 higher.
Extra tax @ 40% will be **£6,872** per partner.

Prepared by PAU LLP 8 May 2018

17 marks:	
Dry-cleaning machine calculation and explanation	2
EPOS calculation and explanation	3
Car calculation and explanation	3
Computer calculation and explanation	2
Difference and change to partners' tax	3
Professional marks	4

Task 2

Spotless Partners
Address

7 June 2018

Dear Fred and Wendy

Amendments to 2016/17 returns

I hope all is well following the break in at your premises.

Jack mentioned to Wendy when you met that a correction would be needed to the capital allowances claimed in the year ended 31 December 2016.

The revised calculation is shown in the appendix to this letter. This also shows the extra tax you will need to pay.

We should act promptly to notify HMRC of this. This affects three returns: the partnership return for 2016/17 and both of your personal tax returns for the same year.

Amendments are made by resubmitting the returns online. This can be done within twelve months of the due date for filing. The due date for all three returns was 31 January 2018, and although we have until the end of January 2019, it is in your interests that amendments are made and any extra tax paid soon.

I must warn you that it is possible that HMRC will raise penalties in respect of the errors. Penalties may be charged if HMRC believe the error occurred due to a careless action where the taxpayer failed to take reasonable care. Any penalty is charged on you as individual taxpayers. The penalty charged will be a percentage of the potential lost revenue, which is the underpaid tax. The maximum penalty for a careless error is 30% of the potential lost revenue, but this may be reduced to 0% where a taxpayer makes the correction unprompted. Penalties for deliberate or concealed errors are higher.

If no correction were made, tax would be left underpaid by both of you. A later amendment, particularly if prompted by HMRC, would give rise to higher penalties and more interest on the overdue tax. Any deliberate underpayment of tax would be tax evasion, which PAU could not have any part in.

In the event that a client asked us to withhold or misrepresent information relevant to their tax, we would withdraw from the engagement.

For all the above reasons, the best course of action is to amend the returns unprompted, and pay the extra tax as soon as possible.

Making the amendments will mean that HMRC has longer to enquire into the returns. However leaving the calculation as it stands is not an option open to us.

Before amendments are made, I suggest that Jack check the returns and ask any questions to ensure there are no further changes needed. If there are, this can be taken care of at the same time. We shall then forward you the revised returns for checking.

The accounts for the year ended 31 December 2017 have not been prepared yet but the revised calculation will be the starting point for that year's capital allowances claim, which will include the dry-cleaning machine.

Yours sincerely
Anjali

24 marks:	
Correction is needed to the capital allowances for relevant year	1
Which returns will need to be amended and which tax year	4
Deadlines and mechanism for these amendments	3
Possible penalties for the errors	4
Implications if no action is taken	4
Recommendation to act soon and to pay extra tax	2
Bonus points – interest, effect on payments on account, extension of enquiry window	3
Professional marks (technical marks capped at 18)	6

Task 3

DRAFT

Tax returns – responsibilities

Spotless Partners' responsibilities

You are legally responsible for:

- Ensuring that your self-assessment tax returns are correct and complete;
- Filing any returns by the due date; and
- Making payment of tax on time.

Fred is named as the nominated partner. This means that he has primary responsibility for partnership returns.
Returns must be accurate to the best of your knowledge and belief.
A return may include reasonable estimates where necessary.
The final decision as to whether to disclose any issue is yours as the taxpayer.

Our responsibilities as tax agents

We are responsible to you as our client for the accuracy of the return based on the information provided by you.
As tax agent, we do not audit the figures in your books and records, nor do we verify information provided by you or by a third party.
We cannot be associated with the presentation of facts we know or believe to be incorrect or misleading. In the event that a client asked us to withhold or misrepresent information relevant to their tax, we would withdraw from the engagement.

For these purposes, 'return' is not limited to your tax-return form: it includes any information or correspondence submitted to HMRC relating to your tax affairs.

Review of returns

We shall provide you with a copy of the return for review before it is submitted.
We ask you to approve the return by signing it, or otherwise in writing. This must be done by the nominated partner.
If you choose not to review a return before submission, you are nevertheless responsible for errors in returns which have been prepared on the basis of the information provided by you.

You are reminded that penalties may be charged where a return is late, or where a submitted return is inaccurate.

19 marks:	
One mark per point. Other valid points will be credited. Sensible paraphrasing accepted.	14
Professional marks 5 (technical marks capped at 14)	5

Task 4

DRAFT EMAIL

To: frank@spotlesspartners.co.uk
Subject: Antique sales

Frank

Thank you for your note about your antique sales.

The sale of the table last year will be treated as a capital gain. I attach a calculation which shows capital gains tax (CGT) of £580 payable. This will be due 31 January 2019. Cars are exempt from CGT, so unfortunately the loss you made is not allowable.

Based on the details you have given in respect of subsequent activity, you are correct that further antique sales will be treated as a trade starting in 2018/19. Reasons for this treatment include the following:

-Profit motive – you are aiming to profit from the sales

-Number of transactions – you are repeating the process of buying, restoring and selling the furniture, rather than these being one-off transactions

-Method of acquisition – you are buying for resale, as opposed to your sale of an inherited asset

-Adding value – the restoration work means you can sell for a better price

You will need to keep sufficient records to enable you to complete the 'self employed' pages in your tax return. These will include invoices and receipts for all sales and purchases of antique furniture, and bank statements for the bank account you are using for the new business. These should be kept separately from partnership records. I recommend that you use a separate bank account which is kept only for the antique transactions.

Taxpayers who are self employed must keep records for at least five years and ten months after the end of the tax year. So for 2018/19, the return will be due 31 January 2020 and you must keep records until 31 January 2025. These are the same as the deadlines for the partnership records.

You asked about VAT registration. If this were needed based on turnover (or if you wished to register voluntarily) this would be separate from the partnership. You would need to register for VAT as a sole trader and you would not be allowed to use Spotless Partners' VAT number.

Please let me know any questions you have.

Regards

ATTACHMENT

Frank: Sale of table January 2018

Proceeds	36,000
Commission (5%)	(1,800)
Probate value	(20,000)
Gain	14,200
Annual exemption	(11,300)
Taxable gain	2,900
Tax @ 20%	**£580**

Notes:
Higher-rate taxpayer
The car is exempt from CGT, loss not allowable

24 marks:	
CGT calculation and excluding car	5
Badges of trade	4
First tax year 18/19	1
Records – general rule, examples, time limits	8
Use of VAT number	2
Professional marks 6 (technical marks capped at 18)	6

Task 5

5a	Preference shares.
5b	Dividends are not generally exempt from tax. However, the first £5,000 of dividends received in the tax year is taxed at 0%. So no tax is payable in respect of the amount received. Any dividends Wendy receives in excess of £5,000 will be taxed at 32.5% as she is a higher rate taxpayer, increasing to 38.1% if the income exceeds the higher rate limit.
	Dividends do still go into the tax return and calculation.
	Dividends received from VCTs or ISAs are exempt.
5c	Nationals Savings and Investments Savings Certificates
	ISAs
5d	£31,400 x 100/80 = £39,250. Relief at source of £39,250 x 20% = £7,850.
	The basic rate band will be extended by this amount, meaning that £39,250 is taxed at 20% rather than 40%, giving £39,250 x 20% = £7,850 relief via the tax computation.
	Total £15,700
5e	eg
	PAU is not able to give investment advice and can only advise on the tax aspects of investments. Wendy may wish to consult an IFA. Unused pension relief b/f. Worth obtaining a state pension forecast. Practical points towards better accuracy of information in future.

16 marks:		
a	(Note no marks for explaining, as requirement is ‘identify’)	1
b		5
c	(‘Identify’ as in a)	2
d	(Written explanation not required, but some credit given if provided rather than figures)	2
e	(a variety of possible points – ethical/other – one only needed)	2
Professional marks		4