

Question A1

An apartment was leased for two years starting from 1st September 2010 at annual value of £24,000. What will be income from property for the Tax Years 10/11, 11/12 and 12/13 respectively?

Question A2

A two years lease for an office building at annual value of £24,000 ended on 31st October 2011. It was renewed for a further period of two years at annual value of £36,000. Rent is received on quarterly basis, on the first day of quarter. Find out income from property for Tax Year 11/12?

Expenses allowed to be deducted are;

1. Repairs and maintenance
 - a. *Repairs / Renovation / Decoration / Re-Decoration are revenue expenses and are allowed to be deducted*
 - b. *Improvement is capital expense and is not allowed to be deducted*
2. Insurance premium relating to the property
3. Council Tax / Water Tax
4. Bad debts expense (tenant has vacated the property / legal proceedings started)
5. Agent's fee (lawyer, estate agent, accountant, newspaper advertisement)
6. Interest on loan taken for the property (to be deductible from property income in case of individuals)
7. Wear and tear allowance – only for furnished accommodation
10% of (Rent – Council Tax / Water Tax – Bad debts expense)

Personal Allowance: £7,475

Income Tax Rates	Normal	Dividend
Basic Rate - £1 to £35,000	20%	10%
High Rate - £35,001 to £150,000	40%	32.5%
Additional Rate - £150,000 and above	50%	42.5%

Relief on Premium = 2% (n - 1) x Premium (where n = lease term)

Question A3

An unfurnished house was on a five years lease which ended on 31st May 2011. Its annual value was £72,000. The tenant left without paying rent for the three months March 2011 to May 2011. The recovery agency has confirmed that they cannot trace him for recovery. The house was re-let for 3 more years at annual rental value of £84,000 starting from 1st July 2011. Rent is received annually in advance. Consequently, full amount of £84,000 was received on 1st July 2011.

The front door was repaired at a cost of £600 on 1st April 2011. The boundary wall got damaged due to floods in May 2011, and had to be repaired at a cost of £1,200. Damage by flood was not covered in the insurance. A new room was constructed in June 2011 at a cost of £3,500. Legal expenses of £1,500 were paid in relation to the new agreement made for tenancy in July 2011. The house is insured with insurance premium payable on 1st of August every year in advance. An amount of £1,200 was paid on 1st August 2010, and £1,800 was paid on 1st August 2011.

Council and Water charges are £1,800 for the year. Calculate property income for 11/12?

Question A4 (Furnished / premium on lease)

Ahmed is 35 years old and had given his furnished apartment on a ten years lease ending on 31st August 2011 at an annual value of £72,000. The apartment was re-let (furnished) for 16 years at annual value of £196,000 starting from 1st January 2012. Premium on lease was £32,000. Rent is to be received quarterly in advance, however the rent for the quarter January – March 2012 was not received until May 2012. Other expenses for the year are:

• Redecoration costs	4,500
• Cost of new kitchen units	3,500
• Agent's fee	2,400
• Council Tax / Water Tax	1,200

Calculate Income Tax Liability for the year 11/12?

Question A5 (owner living in the property / early termination) (PA restriction)

Babar purchased an apartment for £145,000 in 2001. He lived in the apartment till 31st July 2011. He shifted to his newly constructed house in August 2011 and gave his apartment on 55 years lease starting from 1st October 2011 at an annual value of £54,000. The apartment is furnished. He received premium on lease of £30,000. The lease had an early termination clause whereby it could be terminated after 15 years, if both parties agree. Expenses for the year are:

• Renovation costs incurred in June 2011	1,500
• Paint job done in August 2011	4,500
• Insurance paid for the year ended 30 June 2012	1,500
• Agent's fee	1,200
• Council Tax / Water Tax for the year	900

Calculate Income Tax Liability for the year 11/12, assuming:

- Babar has employment income of £56,000?
- Babar has employment income of £72,000

Furnished Holiday Letting:

- It is available for letting for not less than 140 days in a fiscal year
- It is actually let out for a period of not less than 70 days in a year
- Property must not be usually let out for periods longer than 30 days.

Rent a room Relief: £4,250

Question A6 (furnished holiday letting)

Mariyam owns a house that qualifies as a trade under the furnished holiday letting rules. In 11/12 the property was let for ten weeks at £610 per week, and for twelve weeks at £625 per week. Mariyam spent £3,200 on repairs and £6,200 to buy furniture during 2011-12. Council Tax and Water Tax were £1,200 for the year. Other expenditure on this property for the year amounted to £2,750, and this entire amount is allowable. Capital Allowances for the year will be £3,100.

Mariyam also rented out a furnished room of her main residence at £110 per week. The room was let out through-out the year, and Mariyam incurred £1,250 on repairs of the room. Calculate her Income Tax Liability for 11/12 taking most favorable assumptions?

Exam Question 1 (June 2004)

Adrian owns a house, which is not his main residence and which has been let furnished to tenants for the last four years. The annual rent payable in advance by equal monthly installments on the 6th of each month was £7,200 until December 2011 but was increased to £7,800 per year with effect from 6 January 2012. All amounts were received on time with the exception of that due for 6 March 2012, which was not received until 2 May 2012. Expenditure relating to the property was as follows:

Council tax	£960	Water rates	£380
Agent's fees	£780	Re-decoration costs	£1,250
New kitchen units	£2,400	Mortgage interest	£2,500

All these amounts were paid in the year by Adrian with the exception of the council tax which was the responsibility of the tenants. The kitchen units were purchased to replace the existing out-dated units in an attempt to modernize the property. The mortgage interest was paid in respect of a £50,000 interest only loan at 5% per annum.

Required:

Calculate the amount assessable under Property Income for the tax year 2011/12. Assume Adrian will claim wear and tear allowance. (5 marks)

Distinguishing Employment Income from self employment

- Presence of a contract (agreement) of service
 - Obligation by employer to provide work, and employee to undertake work
 - Manner and method of work controlled by employer
 - Employee committed to work specified number of hours
 - Employee obliged to work exclusively for the employer
 - Employee does not bear any financial risk (gets agreed remuneration)
- Employer submits a form P.11D in respect of each employee obtaining benefits. **Benefits are measured at the cost of providing them.** These employees are also called 'higher paid employees'
 - PAYE** is a system of tax collection whereby income tax under Employment Income is collected by the employer from employees earning more than the weekly or monthly equivalent of a single person's allowances. For most employees the tax deducted under PAYE will constitute their final liability without adjustment. Primary national insurance contributions are also collected from the employee together with the employer's secondary national insurance contributions

Question A7 (car)

Ahmed worked in Flick plc as Finance Manager and retired on 5th April 2012. He received annual salary of £96,000 and was provided a petrol car with official CO₂ emission of 173 g/km. Flick plc had purchased the car in 2008 for £21,600 (after receiving a special launch discount of 10%). Subsequently, the car was fitted with air conditioner costing £1,200 on 19th April 2010, a stereo system costing £800 on 21st February 2011, and sun roof costing £1,500 on 15th July 2011. Ahmed contributed £2,000 from his pocket for purchasing the car.

He drove 10,000 miles during the year, until his retirement, and estimates 60% of the miles were for official purposes. Flick plc does not provide fuel, and requires all its employees to reimburse £75 monthly for the personal use of car. Calculate Ahmed's Income Tax liability for the year.

Question A8 (fuel)

Faisal receives annual salary of £66,000. He was provided with a petrol car purchased in 2009 at a cost of £22,000, with official CO₂ emission of 187 g/km, until 31 August 2011. The petrol car was fitted with an air conditioner in January 2010 costing £2,000. Subsequently, on 1st September 2010 the car was replaced by a brand new diesel car costing £32,600 with official CO₂ emission of 204 g/km. Fuel is provided by employer for both official and personal use.

In 11/12, Faisal's employer incurred expense of £5,500 to maintain both the petrol and diesel vehicles, and £3,500 for providing the fuel. Faisal reimbursed £1,800 to his employer for private use of both the cars, and £800 for private use of the fuel during the year. Calculate his income tax liability for the year.

Personal Allowance:	£7,475	
Income Tax Rates	Normal	Dividend
Basic Rate - £1 to £35,000	20%	10%
High Rate - £35,001 to £150,000	40%	32.5%
Additional Rate - £150,000 and above	50%	42.5%
CO₂ emission less than 75 g/km	5%	
76 - 120 g/km	10%	
121 g/km – 125 g/km	15%	
Fuel scale charge	£18,800	

Question A10 (rent free accommodation/PAYE)

Babar receives annual salary of £60,000. He is provided with a diesel car costing £32,000 with official CO₂ emission of 247 g/km. On 1st November 2011, he was provided another petrol car costing 18,000 with CO₂ emission of 115 g/km. Fuel is provided to Babar for both business and personal use.

Babar drove the diesel car for 12,000 miles in 11/12 of which 30% were for his personal use. Petrol car is exclusively used by his wife. In January 2010 Babar was provided a rent-free furnished apartment costing £210,000 with annual rateable value of £22,000. His employer pays an annual rent of £24,000 for the apartment. PAYE for the year is £26,500. Calculate Babar's Income Tax payable for the year.

Expenses relating to living accommodation (Ancillary Services)

- Heating, lighting and cleaning
- Repair, maintenance, decoration of the premises
- Council Tax, Water tax paid by employer

Question A11 (ancillary services)

In October 2010 Mariam was provided a rent-free furnished apartment by her employer. The apartment had originally cost £210,000 when purchased in May 2003, and has annual rateable value of £24,000. Capital expense of £35,000 was incurred in June 2005 to improve the apartment. The apartment had a market value of £320,000 in January 2011. Her employer also paid the following expenses relating to the apartment in 10/11:

Repairs and maintenance	£1,500
Council Tax / water tax	£2,000

Calculate her benefit for the year 2011/12.

Question A12 (loan)

On 1.07.10 Asma took an interest free loan of £25,000 from her employer to buy a holiday cottage. She repaid £5,000 on 1.07.11, £3,000 on 1.10.11, £7,000 on 1.1.12 and £10,000 on 1.07.12. Calculate her benefit for 2011-12.

Question A13 (Furniture/equipment for use)

Saad is employed at an annual salary of £36,000. He was provided furniture for his personal use costing £12,000 in January 2010. In February 2010 he was also provided with a television costing £2,500. A laptop computer costing £3,500 was provided to him on 6th July 2011 for his personal use. Calculate his benefit for 11/12.

Question A14 (Furniture/equipment purchase)

Hasan was provided furniture costing £20,000, and a television costing £3,000 on 1.07.10 for personal use. He retired from his employment on 31st March 2012, and on that day purchased the furniture from his employer for £5,000, when its market value was £8,000. His employer allowed him to keep the television, which had a market value of £750 on that day. Calculate his benefit for the year.

Exam Question 2 (December 2007)

Edmond Brick owns four properties which are let out. The following information relates to the tax year 2011–12:

Property one

This is a freehold house that qualifies as a trade under the furnished holiday letting rules. The property was purchased on 6 April 2011. During the tax year 2011–12 the property was let for eighteen weeks at £510 per week. Edmond spent £5,700 on furniture and kitchen equipment during April 2011. Due to a serious flood £7,400 was spent on repairs during November 2011. The damage was not covered by insurance. The other expenditure on this property for the tax year 2011-12 amounted to £2,710, and this is all allowable. (Capital Allowance may be claimed at the rate of 20%).

Property two

This is a freehold house that is let out furnished. The property was let throughout the tax year 2011–12 at a monthly rent of £625, payable in advance. During the tax year 2011–12 Edmond paid council tax of £1,200 and insurance of £340 in respect of this property. He claims the wear and tear allowance for this property.

Property three

This is a freehold house that is let out unfurnished. The property was purchased on 6 April 2010, and it was empty until 30 June 2011. It was then let from 1 July 2011 to 31 January 2012 at a monthly rent of £710, payable in advance. On 31 January 2012 the tenant left owing three months rent which Edmond was unable to recover. The property was not re-let before 5 April 2012. During the tax year 2011–12 Edmond paid insurance of £290 for this property and spent £670 on advertising for tenants. He also paid loan interest of £5,100 in respect of a loan that was taken out to purchase this property.

Property four

This is a leasehold office building that is let out unfurnished. Edmond pays an annual rent of £6,800 for this property, and had paid a premium of £7,200 for a 15 years lease when he acquired it many years ago. On 6 April 2011 the property was sub-let to a

tenant, with Edmond receiving a premium of £15,000 for the grant of a five-year lease. He also received the annual rent of £4,600 which was payable in advance. During the tax year 2011–12 Edmond paid insurance of £360 in respect of this property.

Furnished room

During the tax year 2011–12 Edmond rented out one furnished room of his main residence. During the year he received rent of £3,040, and incurred allowable expenditure of £4,140 in respect of the room. Edmond always computes the taxable income for the furnished room on the most favorable basis.

Required:

Calculate Edmond's property business profit in respect of the properties and the furnished room for the tax year 2011–12. (20 Marks)

Bonus:

Bonus is assessed on receipt basis for employees

Bonus for Directors is assessed on earlier of:

1. The actual payment of earnings
2. When individual become entitled to the earnings / earnings are determined
3. When earnings are credited in their accounts.

Question A15

A director of ABC Limited received a bonus of £12,000 on 1 May 2011. The bonus relates to the results of the company for the year ended 31 December 2009. It was credited in director's account on 1st April 2011 following a board meeting on 31 August 2010. In which tax year the bonus will be credited?

Exempt Benefits

1. Small loans totaling not more than £5,000 in one year
2. Employers contribution to a registered Pension Scheme
3. Use of Free or Subsidized canteen, if available to all employees
4. Lunch vouchers up to a value of 15 pence per day
5. Gifts from third parties, costing not more than £250 in a year from one source. If exceed, whole amount is taxable.
6. Entertainment (seats to sporting/cultural) events provided by third parties.
7. Long service awards (for more than 20 years service) up to £50 per year of service
8. Free car parking space near office (including reimbursements)
9. One mobile phone
10. Work buses, subsidies to public transport, bicycle and its safety equipment (aimed to encourage employees not to use cars)
11. Employer funded training – both full time and part time, to increase employees skills.
12. Festival parties, annual dinners for staff up to £150 per person. If exceed whole is taxable.
13. First £8,000 of removal / relocation expenses.
14. Medical insurance when employee is working abroad
15. Welfare counseling, assistance in finding another job
16. Free pension advice for employees not costing more than £150
17. Expenses on overnight stay on company business exempt up to £5 per night in

- UK, and £10 on international travel. If exceed, whole is taxable.
18. Employee liability insurance, death in service benefit, and permanent health insurance
 19. Home worker's additional household expense upto £3 per day
 20. Work place nurseries for children (without any limit)
 21. Upto £55 per week of childcare is exempt for basic rate payers, £28 per week for higher rate payers, and £22 per week for additional rate payers.
 22. In house sports and recreational facilities

Question A16

What will be the taxable amount of these benefits for Ali, who works as manager?

- a) The use of a company owned apartment. This had cost the company £180,000 in February 2005 and has been occupied by Ali since that date. The apartment has an annual value of £24,600 and Ali pays the company £2,500 per year for its use. It is estimated that market value of the apartment in January 2011 was £340,000.
- b) A 2000cc BMW car, which has a recommended list price of £28,000. The car has a CO₂ emission rate of 193 grams per kilometer and is petrol driven. The car was first made available to Ali on 1 July 2011 and is used for both business and private purposes. The company paid for all the running costs of the car, which amounted to £2,400 in the tax year 2011–12. Ali paid £6,000 towards the cost of the car and £40 per month for the private use of the car.
- c) Furniture, valued at £12,000, is provided for use in the apartment. During 2011-12 the company paid decorating bills of £550 and wages to a cleaner amounting to £1,500.
- d) Ali has been provided with a computer to use at home for both business and private usage. He estimated that the private usage amounted to 40% and the business usage 60%. The computer was first provided in May 2010 when it had a market value of £2,400 and Ali has used it for whole of the tax year 2011-12.
- e) A 2,000 cc commercial van, first registered in August 2008, used privately for 40% of the time. This was made available for his use for the whole of 2011-12. His employer paid for all of the running costs including petrol, which amounted to £600 for the year.
- f) Ali was provided a loan to help him purchase a yacht. His employer advanced him £40,000 on 6 April 2011 and charged him interest at the rate of 1% per annum. Ali repaid £8,000 of the loan on 6 July 2011, but the remaining £32,000 remains outstanding.
- g) A home entertainment system was first provided for Ali to use at home on 6 April 2009 that was purchased by his employer at a cost of £1,200. The system was given to Ali to keep on 6 October 2011 when it was worth £650.
- h) His employer paid Ali incidental expenses amounting to £12 per night for 60 days overseas business travel, and £4 per night for 40 days UK business travel, during the tax year.
- i) Course fees amounting to £3,000 were paid by the company in respect of training courses relevant to Ali's employment.
- j) Luncheon vouchers amounting to £336 in respect of 224 working days.
- k) Workplace parking. This was calculated as worth £6 per day for each of the 215 days that Ali attended work during the tax year 2011–12.
- l) Private permanent health insurance. This cost the company £800, but would have cost Ali £960 if he had arranged this himself.
- m) Assistance with relocation costs from the office in Manchester to the new office in Winchester (a distance of 210 miles), totaling £9,500.

- n) A Christmas bonus of £2,000 was received in December 2011 and an end of year bonus of £1,500 in respect of the company's year 1 April 2011 to 31 March 2012 was received in May 2012.
- o) Nursery vouchers for an approved carer to the value of £70 per week were given to Ali towards the cost of nursery schooling for Ali's son. The vouchers were given for 40 weeks during the tax year 2011–12. All other employees are entitled to the same amount per week. Ali's taxable income is about £90,000.

Allowable Deductions from Employment Income:

1. Contribution by employee to occupational pension scheme
2. Mileage allowance (first 10,000 miles @ 45 p/mile, above @ 25 p/mile)
3. Professional subscriptions
4. Give As You Earn (Payroll giving)

Question A17 (deductions from employment)

Zara is employed as Finance Manager in Newco Ltd since 2005 at annual salary of £60,000. She paid £350 per month to the company's occupational pension scheme and tax of £35,000 under the PAYE system during 2011-12.

She is provided a rent free flat with annual rental value of £30,000. Newco Ltd. had bought the flat in July 2005 for £178,000, and incurred a subsequent capital expense of £12,000 in August 2006 to improve the flat. Market value of the flat was £425,000 in early 2011. She is also provided a laptop computer costing £2,500 for personal use.

During the year Newco Ltd paid £3,500 into her occupational pension plan. Zara had agreed with her employer that the company would deduct £90 a month during the whole of 2011-12 in respect of charitable payments under the payroll deduction scheme. In December 2011 she paid £215 membership fees to ACCA, a HMRC approved professional body. In addition, the company also paid £750 to the local golf club in respect of her yearly membership and refunded £1,325 to her in respect of actual business expenses incurred whilst she was away from home doing official work.

She was provided a new diesel car for personal and official use with fuel having cost of £28,800 with official CO₂ emission of 213 g/km from 1 October 2011. Newco Ltd gave her a mileage allowance of 55p per mile for the 6,000 business miles traveled by her in her own car till September 2011. Calculate her income tax liability for the year?

NIC:	(not contracted out)	
Class 1 - Employee	Less than £7,225	Nil
	£7,226 - £42,475	12%
	Above	2%
Class 1- Employer	Less than £7,072	Nil
	Above	13.8%
Class 1A - Benefits		13.8%

Exam Question 3 (December 2003)

Vigorous plc runs a health club. The company has three employees who received benefits in kind during 2011–12, and it therefore needs to prepare forms P11D for them. Each of the three employees is paid an annual salary of £35,000. The following information is relevant:

Andrea Lean

- (1) Andrea was employed by Vigorous plc throughout 2011–12.
- (2) Throughout 2011–12 Vigorous plc provided Andrea with a 2200 cc petrol powered company motor car with a list price of £29,400. The car was fitted with a new stereo system costing £1,200 in May 2010. The official CO₂ emission rate for the motor car is 233 grams per kilometre. Vigorous plc paid for the entire motor car's running costs of £6,200 during 2011–12, including petrol used for private journeys. Andrea pays £150 per month to Vigorous plc for the use of the motor car, and £50 for the private use of fuel. He had contributed £6,500 towards cost of the car.
- (3) Vigorous plc has provided Andrea with living accommodation since 1 November 2010. The property was purchased on 1 January 2005 for £130,000. The company spent £14,000 improving the property during March 2006, and a further £8,000 was spent on improvements during May 2010. The value of the property on 1 November 2010 was £170,000, and it has a rateable value of £7,000. The furniture in the property cost £6,000 during November 2010. Andrea personally pays for the annual running costs of the property amounting to £4,000.
- (4) Throughout 2011–12 Vigorous plc provided Andrea with a mobile telephone costing £500. The company paid for all business and private telephone calls

Ben Slim

- (1) Ben commenced employment with Vigorous plc on 1 July 2011.
- (2) On 1 July 2011 Vigorous plc provided Ben with an interest free loan of £120,000 so that he could purchase a new residence. He repaid £20,000 of the loan on 1 October 2011.
- (3) During 2011–12 Vigorous plc paid £9,300 towards the cost of Ben's relocation. His previous main residence was 125 miles from his place of employment with the company.
- (4) During the period from 1 October 2011 until 5 April 2012 Vigorous plc provided Ben with a new diesel powered company motor car which has a list price of £30,200. The official CO₂ emission rate for the motor car is 151 grams per kilometre. Ben reimburses Vigorous plc for all the diesel used for private journeys.

Chai Trim

- (1) Chai was employed by Vigorous plc throughout 2011–12.
- (2) During 2011–12 Vigorous plc provided Chai with a two-year old company van, although the van was unavailable during the period 1 August to 30 September 2011. The company paid £700 for fuel for Chai's private use.
- (3) Vigorous plc has provided Chai with a TV for her personal use since 6 April 2010. The TV cost Vigorous plc £800. On 6 April 2011 the company sold the television to Chai for £150, although its market value on that date was £250.
- (4) Throughout 2011–12 Vigorous plc provided Chai with free membership of its health club. The normal annual cost of membership is £800. This figure is made up of direct costs of £150, fixed overhead costs of £400 and profit of £250. The budgeted membership for the year has been exceeded, but the health club has surplus capacity.

- (5) On 1 January 2012 Vigorous plc provided Chai with a new computer costing £1,900. She uses the computer at home for personal study purposes.

Required:

- (a) Explain what is meant by the term 'P11D employee'. (3 marks)
 (b) Calculate the benefit in kind figures that Vigorous plc will have to include on the forms P11D for Andrea, Ben, and Chai for 2011–12. (19 marks)

Question A18 (Interest)

Nasir works for a sports club as manager and gets annual salary of £60,000. He used his own car and fuel till 5th October 2011. He drove his 3 year old 2,000 c.c. petrol driven car costing £18,000 with CO₂ emission of 188 g/km for a total of 9,000 miles till 5th October 2011. He estimates 1/3rd of his mileage till 5th October 2011 was for business purposes. His employer did not reimburse him for the car use. On 6th October 2011, he was provided a company maintained diesel driven car costing £32,000 with CO₂ emission of 178 g/km. He drove the diesel car for a total of 12,000 miles of which 2/3rd were for business purposes.

He is also provided club membership which cost £400. This amount comprise of fixed cost of £50 and profit of £100. Nasir pays 6% of his salary in occupational pension scheme, while his employer contributes a further 8%. PAYE for the year is £32,250. He received the following amounts from a UK building society as interest on his savings:

- on 15.03.11 received £1,200 (net)
- on 15.03.12 received £1,600 (net)

Calculate his income tax payable and NIC.

Question A19 (dividends)

Ali is employed as finance manager at an annual salary of £60,000. He is provided a company maintained petrol car costing £26,500 with official CO₂ emission of 193 g/km, without fuel for personal use, and a rent-free accommodation costing £115,000 with annual value of £16,000. His employer pays £18,000 as rent for the accommodation. Ali re-imbuers £125 per month to his employer for using the car, and had made a capital contribution of £2,500 towards the cost of the car when it was first provided.

Ali received two bonus payments from his employer during the tax year 2011–12. The first bonus of £22,000 was paid on 30 June 2011 and was in respect of the year ended 31 December 2010. Ali became entitled to this bonus on 15 March 2011. The second bonus of £30,000 was paid on 31 March 2012 and was in respect of the year ended 31 December 2011. Ali became entitled to second bonus on 15 March 2012. He received in 11/12 the following:

- | | |
|------------------------|--------------|
| Interest from Bank | £9,600 (net) |
| Dividends - UK Company | £7,560 (net) |

He pays 12% salary in occupational pension fund. PAYE was £45,600. Calculate his income tax payable and NIC.

Interest received Gross	
a)	Interest from 3 ½ war loan
b)	Interest from bonds / treasury bills
c)	Interest from National Saving Bank account (NSB) <ul style="list-style-type: none"> i. Ordinary account – first £70 exempt from tax ii. Investment account
d)	Interest from National Saving Certificates – exempt from tax

Question A20 (Qualifying interest)

Babar is employed at annual salary of £48,000. He also received:

Interest from bank on 1.04.11	£2,400
Interest on 3-1/2% war loan on 1.05.11	£3,000
Interest from building society on 1.07.11	£1,600
Interest from ISA on 1.09.11	£1,500
Interest from bank on 1.10.11	£2,400
Dividends from UK Company on 1.12.11	£1,800
Interest NSB – ordinary a/c on 1.01.12	£200
Interest from bank on 1.04.12	£2,000
Interest on 3-1/2% war loan on 1.05.12	£1,000

He pays 10% salary in occupational pension fund. He paid qualifying interest of £500 during the year. PAYE was £13,100 for 11/12. Calculate his income tax payable for the year.

Age related personal allowance:	Income Limit for age related allowance = £24,000
Age 65 or over before 5 April 2011	= £9,940
Age 75 or over before 5 April 2011	= £10,090

Question A21

Mansoor, aged 66, retired from his job on 1.01.11. He has invested his savings in a UK bank and received interest on an annual basis. His earnings for 11/12 were:

State retirement pension	£8,600
Interest from Bank	£4,800 (net)
Dividends	£11,250 (net)

Calculate his income tax payable for 11/12.

Question A22 (personal pension)

Zahid, aged 48, is employed at annual salary of £52,000. He uses his own car and fuel, and drove 18,000 business miles during 11/12. His other income during the year was:

Interest from Bank	£4,800 (net)
Dividends	£2,700 (net)

He paid £3,680(net) into a personal pension plan. Calculate his income tax payable.

NIC:	(not contracted out)	
Class 1 - Employee	Less than £7,225	Nil
	£7,226 - £42,475	12%
	Above	2%
Class 1- Employer	Less than £7,072	Nil
	Above	13.8%
Class 1A - Benefits		13.8%

Exam Question 4 (December 2005)

William Wong is the finance director of Glossy Ltd. The company runs a publishing business. The following information is available for the tax year 2011–12:

- (1) William is paid director's remuneration of £7,900 per month by Glossy Ltd.
- (2) In addition to his director's remuneration, William received two bonus payments from Glossy Ltd during the tax year 2011–12. The first bonus of £22,000 was paid on 30 June 2011 and was in respect of the year ended 31 December 2010. William became entitled to this bonus on 15 March 2011. The second bonus of £37,000 was paid on 31 March 2012 and was in respect of the year ended 31 December 2011. William became entitled to second bonus on 15 March 2012.
- (3) From 6 April 2011 until 31 December 2011 William used his private motor car for business purposes. During this period William drove 12,000 miles in the performance of his duties for Glossy Ltd, for which the company paid an allowance of 30 pence per mile. The relevant Inland Revenue authorized mileage rates to be used as a basis of an expense claim are 45 pence per mile for the first 10,000 miles, and 25 pence per mile thereafter.
- (4) From 1 January 2012 to 5 April 2012 Glossy Ltd provided William with a diesel powered company motor car with a list price of £46,000. The motor car cost Glossy Ltd £44,500, and it has an official CO₂ emission rate of 234 grams per kilometer. Glossy Ltd also provided William with fuel for his private journeys.
- (5) William was unable to drive his motor car for two weeks during February 2012 because of an accident, so Glossy Ltd provided him with a chauffeur (driver) at a total cost of £1,800.
- (6) Throughout the tax year 2011–12 Glossy Ltd provided William with a television for his personal use that had originally cost £3,825.
- (7) Glossy Ltd has provided William with living accommodation since 1 January 2010. The property was purchased in 2003 for £190,000, and was valued at £310,000 on 1 January 2011. It has an annual value of £24,000.
- (8) Glossy Ltd pays an annual insurance premium of £680 to cover William against any liabilities that might arise in relation to his directorship.
- (9) During May 2011 William spent ten nights overseas on company business. Glossy Ltd paid him a daily allowance of £10 to cover the cost of personal expenses such as telephone calls to William's family.
- (10) William pays an annual professional subscription of £450 to the Institute of Finance Directors; a HMRC approved professional body, and a membership fee of £800 to a golf club. He uses the golf club to entertain clients of Glossy Ltd.
- (11) William paid £10,080 into a personal pension plan during the year. This is the actual cash amount paid.
- (12) William paid £480 to a charity under gift aid scheme. This is the actual cash amount paid.

Required:

- (a) State the rules that determine when a bonus paid to a director is treated as being received for tax purposes. (3 marks)
- (b) Calculate William's tax liability for the tax year 2011–12. (15 marks)
- (c) Calculate the total amount of both Class 1 and Class 1A national insurance contributions that will have been paid by William and Glossy Ltd in respect of William's earnings and benefits for the tax year 2011–12. (5 marks)