

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 A1

Duncan McByte is a computer programmer living in Scotland. He has recently accepted offer of a contract of employment with Mainframe plc for a period of three years commencing on 1 July 2011. Duncan will be based in London during the period of the contract. The remuneration package comprise of;

- A salary of £72,000 pa, together with a termination bonus of £40,000 upon satisfactory completion of the contract.
- Mainframe plc will provide a flat for Duncan in London. It was purchased in year 2003 for £135,000 and was improved at a cost of £45,000 during year 2004. It has annual rateable value of £24,000 and is currently valued at £320,000. The furniture in the apartment has cost Mainframe £16,000 and the company will also bear running costs of £3,000 pa.
- Duncan used his private motor car for business mileage till December 2011. The motor car is leased at a cost of £980 per month, and annual running costs including fuel of £5,600. He drives a total of 1,700 miles per month, of which 1,500 miles are for business purposes. Mainframe plc pays a mileage allowance of 30 pence per mile for business mileage. Statutory mileage allowance is **45 pence** per mile for first 10,000 miles and 25 pence thereafter.
- From January 2012, Duncan was provided a new diesel powered car along with fuel for official and personal use. The car has official CO₂ emission of 193 g/km and company had purchased it at a 10% discounted value paying £28,800. Duncan had to make a capital contribution of £7,000 for the purchase of the car, and was further required to pay £300 monthly for personal use of the car, and £100 monthly for fuel.
- On 1st July 2011, Mainframe provided Duncan with a loan of £60,000 to purchase a holiday cottage in France. The loan is on 1% interest pa, and will be repaid in six half yearly installments of £10,000 each. Current bank rate is 4.00% pa.
- An allowance of £14 per night was given to Duncan for 35 nights, to cover miscellaneous expenses while he was away on business trips to other cities within the country.
- The company had negotiated group membership of a nearby gymnasium. Duncan availed himself of this benefit paying £350 per month compared with a normal monthly membership fee of £750.
- Mainframe will pay for Duncan’s annual subscription of £125 pa to the Institute of Chartered Computer Consultants, an approved professional body. Duncan will pay £200 per month riding club membership starting from July 2011. Mainframe will pay £1,200 for liability insurance of Duncan, and £1,800 for his golf club subscription (which costs £2,200 if he had taken it himself).
- On 1st July 2011 Duncan was granted options to purchase 15,000 £1 ordinary shares of Mainframe plc at their value of that date. The options were provided free of cost and will be exercised by Duncan upon termination of his contract. Mainframe’s shares are quoted at £1.70 on 1st July 2011 and are estimated to be worth £5 at termination of his contract. These options are approved by HMRC.

Required: Income tax and NIC Implications for Duncan.

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

Question A2

Peter is employed at Flick plc at an annual salary of £72,000. He is provided a car along with fuel for personal use. The car is petrol driven with CO₂ emission of 177 g/km, and had cost the company £20,000 when purchased initially. Peter estimates his total driving is 18,000 miles for a year, of which 30% is private.

Required:

- a) Calculate Peter's income tax and NIC liability for the year
- b) If Peter gets a bonus of £30,000, what will be the after tax and NIC amount he will receive in cash?
- c) If Peter gets a bonus of £36,000, what will be the after tax and NIC amount he will receive in cash?

Question A3

Jane is employed at Flick plc at an annual salary of £92,000. She is provided a car along with fuel for personal use. The car is Diesel driven with CO₂ emission of 171 g/km. Flick plc had leased the car at a cost of £5,700 p.a. while the purchase price would be £24,000 if the company purchased it. Jane estimates her total driving is 18,000 miles for a year, of which 30% is private. The fuel provided by the company is estimated to cost £4,700 during the year.

Required:

- a) Calculate Jane's income tax and NIC liability for the year
- b) Flick plc gives an option to take cash instead of car and fuel. Jane is contemplating to get the cash option if it is feasible for her. Flick plc has indicated that cash alternative available to Jane will be £13,000. If Jane chooses to take cash; she will lease the same car herself. Calculate her tax liability if she takes the cash alternative.
- c) If Jane chooses to take cash, what will be the after tax additional cash amount she will receive apart from her salary (take NIC implication also).

Question A4

Edmond Brick owns three 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 2010. During the tax year 2011–12 the property was let for eighteen weeks at £910 per week. Edmond spent £5,700 on furniture and kitchen equipment during May 2011. Due to a serious flood £7,400 was spent on repairs during November 2011. The other expenditure on this property amounted to £2,710, and this is all allowable.

Property two

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 three

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.

Required: Calculate Edmond's property business profit in respect of the properties for the tax year 2011–12.

Furnished Holiday Accommodation

- a) It is available for letting for a period of not less than 140 days in a fiscal year
- b) It is actually let out for a period of not less than 70 days in a fiscal year
- c) Property must not be let out for 'long term periods' (longer than 30 days) for more than 155 days in a year

Rent a room Relief: £4,250

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

Question A3

Vernon, a married man aged 40, has owned three unfurnished investment properties Number 1, 2 and 3 Shercock Avenue, for many years. All leases are at full commercial rent. Rent for Number 1 and 3 is payable quarterly in advance, on the usual quarter days, while rent on Number 2 is payable monthly in advance, on the first day of the month. The receipts and expenditure statements in respect of each property is as follows:

	Number 1		Number 2		Number 3	
Year ended	<u>5.4.11</u>	<u>5.4.12</u>	<u>5.4.11</u>	<u>5.4.12</u>	<u>5.4.11</u>	<u>5.4.12</u>
Rent received (£)	23,000	29,000	-	84,000	38,000	42,000
Expenditure						
- Maintenance	(28,100)	(7,300)	(10,200)	(12,100)	(9,400)	(8,700)
- Repairs	-	-	(16,000)	-	(17,000)	-
- Legal Fee	-	-	(2,000)	-	-	-

Notes:

- a) The tenant of Number 1 did not pay all the rent due for the year ended 5 April 2011 and owed £1,000 at the end of the year. This amount was paid in June 2011 and has been included in the figure of £29,000 above. The quarterly rental was £6,000, increasing to £7,000 from the quarter commencing on 6 July 2011. In July 2010 the property was decorated at the cost of £2,000. This is included in the maintenance cost of £28,100.
- b) The tenant of Number 2 left the property on 30 April 2010, owing rent of £6,000 (for one month). Despite taking the tenant to the court and incurring legal fee of £2,000, Vernon was unable to recover the unpaid rent. The repair expenditure of £16,000 was for repairing damage to the premises caused by the defaulting tenant. Once the repairs have been completed, Number 2 remained empty till 1 May 2011, when it was given at rent at the rate of £7,000 per month.
- c) The repairs carried out at Number 3 consisted of replacing three old fireplaces with a central heating system. The quarterly rental was £9,500 increasing to £10,500 from the quarter commencing on 6th July 2011.

You are required to explain clearly all items in the receipts and expenditure statement which require adjustment showing final adjusted income, and to compute his Income Tax Liability for the year 11/12?

Question A4

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 £12,165 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 2002 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 £32,600 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?

Age related personal allowance:	
Age 65 or over before 5 April 2011	= £9,940
Age 75 or over before 5 April 2011	= £10,090
Income Limit for age related allowance	= £24,000
Personal Allowance	£7,475

Question A5

Ali, aged 38, is employed at an annual salary of £78,000. He is provided a company maintained petrol car costing £32,000 with official CO₂ emission of 193 g/km, with fuel for personal use, and a rent-free accommodation costing £215,000 with annual value of £22,000. His employer pays £24,000 as rent for the accommodation. Ali re-imburses £125 per month to his employer for using the car, and had made a capital contribution of £2,000 towards the cost of the car when it was first provided.

He received in 11/12 the following:

Interest from Bank	£6,400 (net)
Dividends - UK Company	£5,400 (net)

He paid £10,080 in a personal pension fund during the year. He also paid £1,600 under gift aid scheme in a local charity. PAYE was £15,800. Calculate his income tax payable and NIC for the year.

Question A6

Mansoor, aged 66, retired from his job on 31st December 2010. He has invested his savings in a UK bank and received interest on an annual basis. His earnings for 11/12 were:

Pensions	£8,800
Interest from Bank	£4,800 (net)
Dividends	£11,250 (net)

Calculate his income tax payable for 11/12.

<u>Exempt</u>	<u>Partially exempt</u>	<u>Taxable</u>
<ul style="list-style-type: none"> Statutory redundancy payment Payments due to sickness, death Lump-sum payment from approved Pension 	<ul style="list-style-type: none"> Redundancy payments including benefits <p>First 30,000 exempt (reduced by statutory redundancy payment)</p>	<ul style="list-style-type: none"> Regular Emoluments Notice pay Payment for restrictive covenants

Question A7

Peter Pan was employed by Flick plc, an unquoted company, at an annual gross salary of £60,000. He was dismissed on 15 February 2012, and on that day was paid salary for the remaining days of February, along with advance salary for next month, as per his contract. Additionally he received redundancy payments of £65,000. This amount included statutory redundancy payment of £2,800, holiday pay of £1,800 and £6,000 for agreeing not to work for a rival company. The balance of payment was compensation for loss of office; £10,000 out of the amount was not paid till 31 May 2012.

During his employment, he was provided with petrol driven car costing £22,000 with official CO₂ emission of 193 g/km with Fuel. On his dismissal, he was allowed to keep the car till 30th June 2012 with fuel provided by Flick plc. Calculate his Income tax liability of 11/12 and 12/13, assuming he has no other income and rates of tax for both years are the same as of 11/12.

Question A8

Opening balance of P&M pool on 6th April 2011 is £120,000

Opening balance of Expensive Car (1) on 6th April 2011 is £18,000

Opening balance of Special Rate pool on 6th April 2011 is £40,000

Purchases:

- Machinery costing £84,000 purchased in May 2011
- Telecommunication equipment costing £22,000 purchased in June 2011
- Car-2 costing £28,600 purchased in August 2011 (CO₂ emission of 155 g/km)
- Car-3 costing £32,000 purchased in September 2011 (CO₂ emission of 185 g/km)
- Car-4 costing £22,000 purchased in January 2012 (CO₂ emission of 110 g/km)

Disposals

- Car-2 sold in November 2012 for £22,500
- Car-3 sold in December 2012 for £27,500

Calculate capital allowances for the two years ending on 5th April 2012 and 5th April 2013 respectively?

Personal Allowance 65 – 74 yrs	£9,940
75 yrs and above	£10,090
Income Limit for age related allowance	£24,000 (adjusted net income)
Individual Savings Account – Overall Limit £10,680 (cash ISA £5,340, shares ISA upto £10,680)	
Pension - Annual allowance: £50,000	Pension - Life-time allowance: £1,800,000
Enterprise Investment Scheme (EIS) - Relief: 30%	(3 yrs holding) Annual Limit: £500,000
Venture Capital Trust (VCT) – Relief: 30%	(5 yrs holding) Annual Limit: £200,000

Question A9

Opening balance of P&M pool on 1st July 2011 is £120,000

Opening balance of Special Rate pool on 1st July 2011 is £40,000

Purchases:

- Machinery costing £45,000 purchased in July 2011
- Telecommunication equipment costing £15,000 purchased in August 2011
- Escalator (Long Life Asset) costing £50,000 in August 2011
- Car-2 costing £18,600 purchased in August 2011 (CO₂ emission of 155 g/km)
- Car-3 costing £32,000 purchased in September 2011 (CO₂ emission of 185 g/km)

Disposals

- Car-1 sold in November 2012 for £18,750
- Car-2 sold in November 2012 for £19,500
- Car-3 sold in December 2012 for £24,000

Calculate capital allowances for the period ending on 5th April 2012 and year ending 5th April 2013?

Question A10

Paul Opus disposed of the following assets during the tax year 2011–12 (assume entrepreneur relief is not claimed in any of the disposals):

(1) On 10 April 2011 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 2006 for £120,000 and purchased a further 10,000 shares on 18 September 2009 for £44,000.

(2) On 15 May 2011 Paul made a gift 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 had purchased 10,000 shares on 29 April 1994 for £14,000, and received a one for two bonus issue on 31 January 2003. The shareholding is less than 1% of Concerto plc's issued share capital, and Paul has never been employed by Concerto plc.

(3) On 9 June 2011 Paul sold a vintage Aston Martin motor car for £76,400. The motor car had been purchased on 21 January 2002 for £34,800.

(4) On 4 July 2011 Paul sold an antique vase for £9,350. The antique vase is one out of a pair of two vases purchased earlier on 19 January 2006 for £6,200. Market value of the other remaining vase on the day of sale is £7,650.

(5) On 16 August 2011 Paul sold three acres of freehold 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 August 2011 was £90,000.

Land & Buildings	Shares
a) Disposal less than 20% of the total value (before disposal) OR	a) Disposal less than 5% of the total value (before disposal) OR
b) total disposal of land less than £20,000	b) total disposal of shares less than £3,000
Gain is deferred by deducting proceeds (of small disposal) from the cost of asset.	

(6) On 21 September 2011, Paul sold his quarter share in a racing horse for £36,000, which was purchased two years ago for £19,000.

(7) Paul sold a copyright for £75,000 on 5 October 2011, which he had purchased on 1st October 2001 for £35,000. The copyright is due to expire on 30th September 2035.

(8) On 18th October 2011, Paul sold a chair for £8,400. The set of two chairs was purchased 12 years ago for £9,000, and Paul had sold one chair from the set for £5,500 in May 2007. Market value of remaining Chair in May 2007 was £8,250.

(9) Paul had purchased a 25 years lease on land for £18,000 on 30th October 2001. He disposed of this piece of land for the sum of £54,000 (gross) on 30th October 2011.

(Lease depreciation % 45 years = 98.059, 35 years = 91.981, 25 years = 81.100, 15 years = 61.617, 5 years = 26.722)

(10) On 5 March 2012 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.

(11) On 31 March 2012 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 March 2012.

Principal Private Residence

- 1) The 36 months directly preceding the disposal of property
- 2) Any period or periods which together do not last more than three years
- 3) An unlimited period throughout which the individual was employed abroad
- 4) Any periods or period not lasting more than four years, throughout which the individual was prevented from residing in the property because
 - a. His place of work was too far from his property
 - b. His employer required him to reside somewhere else

(12) 2,000 shares in APC Ltd were sold for £3,500 on 31 March 2012. Paul's purchases of APC Ltd shares have been:

14 September 1993:	1,000 shares for £500
16 November 2000:	500 shares for £550
19 October 2003:	500 shares for £775
31 March 2012:	200 shares for £300

Paul had a capital loss of £8,500 bought forward as at 6 April 2011. Assuming Paul's employment income for the tax year 2011–12 is £80,000 calculate his capital gains tax for 11/12.

Question A13 (Principal Private Residence)

On 30 September 2012 David and Angela sold a house for £381,900. The house had been purchased on 1 October 1987 for £86,000. David and Angela occupied the house as their main residence from the date of purchase until 31 March 1991. The house was then unoccupied between 1 April 1991 and 31 December 1994 due to Angela being required by her employer to work elsewhere in the United Kingdom. From 1 January 1995 until 31 December 2001 David and Angela again occupied the house as their main residence. The house was then unoccupied until it was sold on 30 September 2012. Throughout the period 1 October 1987 to 30 September 2012 David and Angela did not have any other main residence.

Question A12

Ahmed sold the following assets during 11/12:

- a) A freehold warehouse for £205,000 on 31st May 2011. The warehouse was originally purchased by his father in 2001 for £90,000 and has been used in business since then. Ahmed acquired the warehouse on his father's death when the probate value was £165,000.
- b) A painting for £9,500 on 15th July 2011. The painting was given to Ahmed by his Uncle as a birthday gift two years ago, when it had a value of £7,700. His uncle had purchased a set of two paintings for £3,400 in 2003. At the time of gift, market value of the other painting was £6,300.
- c) An office building for £220,000 in December 2011. The office building was given to Ahmed by his father as a gift in January 2007 when it had a market value of £185,000. His father had purchased the office for £130,000 in 2005. The office has always been used in business.
- d) 20,000 shares of ABC plc, an unquoted company, for £6 each. The shares were transferred to him by his wife in January 2011. His wife had received the shares as gift from her father in August last year, when they were valued at £4.5 each. They were originally purchased in September 2005 for £3.2 each.

Calculate the net cash Ahmed will receive after paying all taxes, assuming all applicable relief's are claimed during these transactions. Ignore entrepreneur relief.

Question A13 (Restructuring)

Fahad had purchased 20,000 shares in Earth Limited in August 2002 at a cost of £5 per share. In December 2002, Jupiter Limited acquired Earth Limited and gave all of the Earth Limited shareholders 2 ordinary and 1 preference share of Jupiter Limited, against each of their original share in Earth Limited. Jupiter Limited's ordinary shares were valued at £5, while preference shares were valued at £4 on 22 December 2002.

Fahad sold 10,000 ordinary shares of Jupiter Limited for £90,000 on 31st December 2011. Jupiter Limited's preference shares were valued at £5 on this date.

- 1) Calculate Fahad's capital gains for the year if the companies are quoted?
- 2) Calculate Fahad's capital gains for the year if the companies are unquoted?

Question A14 (Restructuring)

Asim sold 5,000 ordinary shares in West Limited, an unquoted company, for £4.5 per share on 31st March 2012. He had received 25,000 shares in East Limited, an unquoted company, from his Uncle in 2003 as a gift, when they were valued at £3 per share. His Uncle had purchased the shares for £2 each in 1999.

In December 2008, West Limited acquired East Limited, and gave 1 ordinary share and 1 preference share against each share of East Limited. West Limited's ordinary share was trading at £3 and preference share at £2 immediately after the acquisition.

On 31st March 2012, West Limited's preference share was trading at £2.5 per share. Calculate capital gains for Asim for 11/12 assuming all relief's are claimed?

Question A15 (Incorporation)

Ahmed is running his business for the last 7 years, and now wants to incorporate it. The only chargeable asset is a factory building, which was bought in 2003, and has been used in business since then. He

estimates his capital gains (after indexation but before any other relief) will be £250,000. Total worth of his business is £500,000 and he plans to get a portion of it as shares (par value of £1), and the rest as cash. Advice him about the amount of cash he may choose to obtain without incurring any capital gains tax liability.

Question A16 (Roll over relief)

Babar purchased a free hold factory building costing £225,000 in 1995. He sold the factory building on 15.6.11 for £525,000 and purchased a freehold warehouse in the vicinity for a sum of £475,000 on 1.12.11. Both buildings are used in business and Babar claims all reliefs available to him. Calculate his capital gains for 11/12.

Question A17

Ahmed sold a free hold factory building for £325,000 on 12.5.11. He had purchased the building on 15.1.03 at a cost of £120,000, after selling a freehold warehouse on 7.3.02 for 145,000. The amount of chargeable gains arising on sale of warehouse was £70,000. Both buildings are used in business and Ahmed claims all reliefs available to him. Calculate his capital gains for 11/12.

Question A18 (holdover relief)

Ahmed sold an item of plant and machinery for £325,000 on 12.5.11. He had purchased the plant on 15.1.02 at a cost of £225,000, after selling a freehold warehouse on 7.3.01 for 195,000. The amount of chargeable gains arising on sale of warehouse was £65,000. Both assets are used in business and Ahmed claims all reliefs available to him. Calculate his capital gains for 11/12.

IHT Rates:	First £325,000 = Nil above = 40%
Taper Relief	3 to 4 years = 20% 4 to 5 years = 40% 5 to 6 years = 60% 6 to 7 years = 80%

Question A19 (Related person valuation)

Hamid owns 30,000 shares in ABC plc (an unquoted company). His wife owns 25,000 shares, while his son owns 15,000 shares in the same company. The capital of ABC plc consists of 100,000 shares. The company is engaged in investment business. On 15 January 2006 Hamid gave 10,000 shares to his son.

Hamid died on 21 October 2011, leaving the rest of 20,000 shares in ABC plc to his son, and an estate of £150,000 to his wife.

The shares are valued as:

(on 15.1.06) less than 30% holding £15 per share
 30-50% holding £20 per share
 above £25 per share

(on 21.10.11) less than 30% holding £18 per share
 30-50% holding £22 per share
 above £30 per share

Calculate IHT payable.

- Property consisting of business = 100% BPR
- Shares in unquoted company, including shares on AIM = 100% BPR
- Shares in quoted company (majority shareholding) = 50% BPR
- Land, building, plant & machinery owned by individual, used in business = 50% BPR
- Agricultural property (on agricultural value) = 100% APR