Module Title: Taxation Theory and Practice
Level: Five
Time Allowed: Two hours plus 15 minutes reading time. Students must not commence answering the questions until the reading time has ended.

Instructions to students:

- Enter your student number **not** your name on all answer books.
- During the 15 minutes reading time, students **are** permitted to make notes on the examination paper but **not** on the answer book. Students should begin answering the questions after the reading time has ended.
- Answer any **four** out of **five** questions.
- All questions are equally weighted. Where a question has more than one part the division of marks is stated.
- Begin each question in a separate answer book; label each answer book clearly with the number of the question you are answering.
- Neither books nor notes may be taken into the examination.
- The use of a non-programmable calculator is permitted.
- Tax Tables are provided in a separate document.
Answer **four** out of **five** questions.

**Question 1**

Lucinda’s income statement for the year to the 31\textsuperscript{st} March is shown below:

\[
\begin{array}{ll}
\text{£} & \text{£} \\
\hline
\text{Sales} & 82,500 \\
\text{Less cost of sales} & 37,200 \\
\text{Gross profit} & 45,300 \\
\text{Add} & \\
\text{Rental income} & 1,200 \\
\text{Bank interest} & 80 \\
\text{Profit on sale of non-current asset} & 310 \\
\text{Less} & \\
\text{Wages & salaries} & 22,620 \\
\text{Business rates & insurance} & 2,170 \\
\text{Heating & lighting} & 1,750 \\
\text{Repairs & renewals} & 4,280 \\
\text{Telephone} & 880 \\
\text{Motor expenses} & 3,250 \\
\text{Sundry expenses} & 1,650 \\
\text{Bad & doubtful debts} & 640 \\
\text{Credit card interest} & 120 \\
\text{Loss on sale of non-current asset} & 70 \\
\text{Depreciation} & 2,500 \\
\hline
& 39,930 \\
& 6,960
\end{array}
\]

**Notes**

Lucinda draws a salary of £200 per week from the business. This is included in the figure for wages and salaries.

Repairs and renewals are as follows:

\[
\begin{array}{ll}
\text{£} \\
\hline
\text{Decoration of business premises} & 400 \\
\text{Installation of new improved heating system} & 3,800 \\
\text{Minor repair} & 80 \\
\hline
& 4,280
\end{array}
\]

It has been agreed with HMRC that one quarter of telephone expenses and 20% of motor expenses relate to private use.

Sundry expenses include £520 for business entertaining.

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**Question 1 continues overleaf**
Trade debts written off for the year amount to £440 and there is a bad-debt provision of £200.

Required:

a. Calculate Lucinda’s taxable income from the business.  

b. Calculate George’s capital allowances year to 31 March 2017 assuming he claims the maximum capital allowances.
Question 2

David Attleborough, aged 60, provides you with the following information relating to the tax year ended 5 April 2017:

1. Salary, as a biological scientist for a conservation body – £36,000 p.a. before PAYE. He pays a professional subscription to the Biology Society (approved by HMRC) of £200 and pays 5% of his gross salary into his employer’s pension scheme.

2. Dividends of £6,300 received from UK companies.

3. Interest on an investment account with the National Savings Bank. The amount received was £1,500.

4. Working at home for 24 hours a month; David writes technical manuals for amateur scientists. The costs for this year total £1,900 and the income is £12,700. David has made no allowance for the cost of working at home in his expenses. David also receives £150 per month for articles he writes on bees and other insect life; the costs for this are included in his expenses for writing his technical manuals.

Calculate the following items to be dealt with on David’s P11D form:

i. Vouchers of £350 to be used for the purchase of business clothes.

ii. A car with a list price of £8,800 is provided by the conservation body for both business and private mileage. The running costs of the car, including fuel, are £4,250 for the year. The car has an emissions rating of 10%.

iii. Gym club subscription for David and his wife - £250.

iv. David has a boat loan from his employers at a cost of 4.5% per annum. At the start of this tax year David owed £6,000; half-way through the year David repaid £2,000 leaving £4,000 outstanding at the end of the tax year.

Required:

a. Calculate David’s income tax liability. Assume the Official Rate of Interest (ORI) is 3%. 

(15 marks)

b. Briefly explain how David’s taxable benefits are dealt with in his tax return.

(5 marks)

c. Briefly explain how the PAYE system works.

(5 marks)
Question 3

Tony Tenon has been trading as a carpenter and cabinet maker for some years. Tony is registered for VAT and pays VAT based on returns due at the end of each calendar quarter. Tony sends out invoices infrequently because he does not invoice a customer until the end of the particular job. Some of these jobs can last for several months.

Details of sales are as follows:

<table>
<thead>
<tr>
<th></th>
<th>£</th>
</tr>
</thead>
<tbody>
<tr>
<td>May</td>
<td>31,000</td>
</tr>
<tr>
<td>June</td>
<td>11,000</td>
</tr>
<tr>
<td>September</td>
<td>24,000</td>
</tr>
<tr>
<td>December</td>
<td>20,000</td>
</tr>
<tr>
<td>January</td>
<td>65,000</td>
</tr>
<tr>
<td>March</td>
<td>35,000</td>
</tr>
</tbody>
</table>

Less Expenses:

<table>
<thead>
<tr>
<th></th>
<th>£</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank Overdraft Interest</td>
<td>1,320 for the year</td>
</tr>
<tr>
<td>New Tools purchased September</td>
<td>15,000</td>
</tr>
<tr>
<td>Telephone bill</td>
<td>564 per annum, paid monthly</td>
</tr>
<tr>
<td>Motor Van expenses</td>
<td></td>
</tr>
<tr>
<td>Business use petrol</td>
<td>1,080 (12x£90) paid monthly</td>
</tr>
<tr>
<td>Servicing</td>
<td>350 July</td>
</tr>
<tr>
<td>Repairs</td>
<td>900 June</td>
</tr>
</tbody>
</table>

All figures are excluding VAT where applicable.

Goods purchased for own use total £500 for each quarter.

Calculate the cost of materials which account for 40% of the sales for each month. All material purchases are vatable.

Required

a. Calculate the VAT due for each quarter.  

b. When is the VAT for each quarter due? 

c. Explain how Tony could improve his cash-flow.
d. What records need to be kept for VAT purposes? (3 marks)

Total: 25 marks

Question 4
Aileen Hurst-Stephens is a high-powered lawyer practising as a barrister-at-law. Aileen earns gross fees of £240,000 and pays 10% of her fee income, as commission, to her legal clerk who deals with her business affairs.

Aileen’s other allowable expenses come to £3,600 per month; this includes her hotel accommodation, professional indemnity insurance premiums and professional subscriptions.

Aileen travels widely in her work and has covered 43,000 miles in the past year. She has not yet calculated this amount and tells you she is planning to claim @£0.60 per mile.

Aileen received dividends of £55,000 from UK share investments.

Property Income from a REIT is a net £16,000 after Income Tax @ 20%.

Required

a. Calculate Aileen’s Income Tax liability for this tax year. (20 marks)

b. What can Aileen invest in to reduce her Income Tax liability? (5 marks)

Total: 25 marks

Question 5
Jennifer works as an events manager and earns a gross salary of £24,000. Jennifer owns three freehold properties which she rents out. Water bills & Property Taxes are paid by the tenants.

72 Allan Close
This was let out at an annual rent of £13,000 payable monthly on the 1st of each month from the beginning of the financial year. On December 1st the tenancy changed and the new tenants paid rent at £20,000 a year until the end of the financial year. This property is furnished.
81 Birch Lane
The annual rental was £18,000 payable monthly in advance on the 1st of each month. At the end of January the tenants left without notice and Jennifer regards the rent for February & March as irrecoverable. This property is furnished.

5 Cornhill Way
This was acquired on 6/7/11 and let out that date at an annual rental of £10,200 payable monthly in advance on the 1st of each month. To date all rents have been paid by reliable tenants. This property is furnished.

Expenditure in connection with the properties was as follows:

<table>
<thead>
<tr>
<th></th>
<th>Allan Close</th>
<th>Birch Lane</th>
<th>Cornhill Way</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agent’s commission</td>
<td>£1,200</td>
<td>£1,800</td>
<td>£1,600</td>
</tr>
<tr>
<td>Garden maintenance</td>
<td>£600</td>
<td>£1,200</td>
<td>£1,200</td>
</tr>
<tr>
<td>Insurance</td>
<td>£800</td>
<td>£600</td>
<td>£600</td>
</tr>
<tr>
<td>Repairs</td>
<td>£200</td>
<td>£180</td>
<td>£1,500</td>
</tr>
<tr>
<td>Replacement furniture</td>
<td>£1,600</td>
<td>£1,600</td>
<td>£1,900</td>
</tr>
<tr>
<td>Loan interest</td>
<td>£1,000</td>
<td>£3,500</td>
<td>£2,500</td>
</tr>
</tbody>
</table>

Jennifer also rented out a room in her main residence, charging £4,000 rent in 2016/17 and incurring expenses of £1,000 in connection with the letting.

Required:

a. Calculating Jennifer’s property business income for 2016/7. Your answer must show the profit or loss made on each property.

   (10 marks)

   i. Why should Jennifer be concerned about the amount of loan interest paid?

   (5 marks)

   iii. Calculate Jennifer’s tax liability for the year.

   (5 marks)
Question 5 continues overleaf

Trevor, a property developer, purchased a run-down freehold shop for £100,000; he then spent £60,000 on improvements which included new plumbing, rewiring the electricity system, decorating, a new roof and central heating for the shop which also has a flat above the shop. Trevor may well have taken out a substantial bank loan to finance the purchase of the property and the cost of improvements. Trevor creates a twenty year lease for which he charges a premium of £60,000; the tenant will also pay an annual rental of £12,000. A substantial part of the premium and some of the rental income will be used to repay the bank loan. It doesn’t all go into Trevor’s pocket.

Required:

b.  
   i. Calculate Trevor’s taxable income from the property for this year.
   ii. Calculate the rent expense claimed by Trevor’s tenant.

   (5 marks)

Total: 25 marks
End of Paper