Module Code
MAN00020H RESIT

BSc Degree Examinations 2020-21

Department:
Management

Title of Exam:
Taxation Systems

Time Allowed:
THREE hours
(plus ONE hour upload time)

Allocation of Marks:
Part A is worth 75 marks.
Part B is worth 25 marks.

Instructions for Candidates:
Part A contains three questions. You should answer **ALL** the questions in this section.

Part B contains two questions. You should answer **ONE** question from this section.

Candidates must show all workings

Tax rates and allowances are provided in the examination

SECTION A

You are required to answer **ALL** questions in Section A.

Question 1

On 30 June 2020 John ceased self-employment.
On 1 August 2020 he commenced employment with Gyro plc.

The following information is available for the tax year 2020/21:

Self-employment

1) John's trading profits for the final two periods of trading were as follows:

	£
Year ended 30 April 2020	95,260
Two-month period ended 30 June 2020	10,440

There were no capital allowances.

2) John has unused overlap profits brought forward of £41,700.

Employment

1) John is paid a salary of £15,100 per month by Gyro plc. The salary is paid on the last day of each calendar month.

2) During August 2020 Gyro plc paid £11,649 towards John's removal expenses when he permanently moved to take up his new employment with the company as he did not live within a reasonable commuting distance. The £11,649 covered both his removal expenses and the legal costs of acquiring a new main residence.

3) On 1 September 2020 Gyro plc provided John with an interest-free loan of £39,600 that he used to renovate his new main residence. This loan was still outstanding at 5 April 2021. Assume the official interest rate is 2.25%

4) During the period from 1 August 2020 to 5 April 2021, John was provided with free meals in Gyro plc's staff canteen. The total cost of these meals to the company was £1,340. The canteen is available to all of the company's employees.

5) During the period from 1 October 2020 to 5 April 2021, Gyro plc provided John with a diesel powered motor car with an official CO_2 emission rate of 104 grams per kilometre. The motor car, which had a list price of £14,400, cost Gyro plc £13,900 in 2019. Gyro plc does not provide John with any fuel for private journeys.

CONTINUED

Other information

1) During the tax year 2020-21 John received interest of £1,200 from a holding of £24,000 5% Treasury Stock 2025 and dividends of £7,200.

2) During the tax year 2020-21 John made gift aid donations totalling £4,400 (net) to national charities.

Required:

Calculate John's income tax liability for the tax year 2020-21.

Note. You should indicate by the use of zero any items that are non-taxable/exempt from tax.

(25 marks)

CONTINUE TO NEXT QUESTION

Question 2 (25 marks)

Winston:

a) On 19 May 2020 Winston disposed of a painting, and this resulted in a chargeable gain of £46,560. For the tax year 2020-21 Winston has taxable income of £20,900 after the deduction of the personal allowance.

Winston is considering the sale of a business that he has run as a sole trader since 1 July 2008. The business will be sold for £260,000, and this figure, along with the respective cost of each asset, is made up as follows:

	Sale proceeds	Cost
	£	£
Freehold shop	140,000	80,000
Freehold warehouse	88,000	102,000
Net current assets	32,000	32,000
	260,000	

The freehold warehouse has never been used by Winston for business purposes.

Required

i. Assuming that Winston does not sell his sole trader business, calculate his capital gains tax liability for the tax year 2020-21.

[7 marks]

ii. Calculate Winston's capital gains tax liability for the tax year 2020-21 if he sold his sole trader business on 25 March 2020.

[8 marks]

b) On 3 December 2020 Renaldo sold two acres of land at auction for gross proceeds of £92,000. The auctioneers' commission was 5% of the sale price.

Renaldo's wife's father had originally purchased three acres of land on 4 August 2002 for £19,500. He died on 17 June 2009, and the land was inherited by Renaldo's wife. On that date the three acres of land were valued at £28,600. Renaldo's wife transferred the land to Renaldo on 14 November 2012. On that date the three acres of land were valued at £39,000. The market value of the unsold acre of land as at 3 December 2020 was £38,000.

Required:

Compute Renaldo's chargeable gain in respect of the disposal on 3 December 2020.

[10 marks]

CONTINUE TO NEXT QUESTION

Question 3 (25 marks)

Jim Parsons is an entrepreneur, regularly starting and disposing of businesses. On 31 July 2020, Short Ltd, a company owned by Jim Parsons, ceased trading. On 1 October 2020, Long Ltd, another company owned by Jim Parsons, commenced trading. The following information is available:

Short Ltd:

1) For the final four-month period of trading ended 31 July 2020, Short Ltd had a tax adjusted trading profit of £52,400. This figure is before taking account of capital allowances.

2) On 1 April 2020, the tax written down value of the company's main pool was £12,400. On 3 June 2020, Short Ltd purchased a laptop computer for £1,800.

On 31 July 2020, the company sold all of the items included in the main pool at the start of the period for £28,200 and the laptop computer for £1,300. None of the items included in the main pool was sold for more than its original cost.

3) On 31 July 2020, Short Ltd sold the company's freehold office building for £180,300. The building was purchased on 3 May 2016 for £150,100, and its indexed cost on 31 July 2020 was £164,500.

4) During the four-month period ended 31 July 2020, Short Ltd let out one floor of its freehold office building which was always surplus to requirements. The floor was rented at £1,200 per month, but the tenant left owing the rent for July 2020 which Short Ltd was unable to recover. The total running costs of the office building for the four-month period ended 31 July 2020 were £6,300, of which one-third related to the let floor. The other two-thirds of the running costs have been deducted in calculating Short Ltd's tax-adjusted trading profit of £52,400.

5) During the four-month period ended 31 July 2020, Short Ltd made qualifying charitable donations of £800.

Long Ltd:

1) Long Ltd's operating profit for the six-month period ended 31 March 2021 is £122,900. Depreciation of £2,580 and amortisation of leasehold property of £2,000 (see note (2) below) have been deducted in arriving at this figure.

2) On 1 October 2020, Long Ltd acquired a leasehold office building, paying a premium of £60,000 for the grant of a 15-year lease. The office building was used for business purposes by Long Ltd throughout the six-month period ended 31 March 2021.

CONTINUED

3) On 1 October 2020, Long Ltd purchased two motor cars. The first motor car cost £12,600, and has a CO2 emission rate of 110 grams per kilometre. This motor car is used as a pool car by the company's employees.

The second motor car cost £13,200, and has a CO2 emission rate of 60 grams per kilometre. This motor car is used by Jim Parsons, and 45% of the mileage is for private journeys.

4) On 1 October 2020, Jim Parsons made a loan of £100,000 to Long Ltd at an annual interest rate of 5%. This is a commercial rate of interest, and no loan repayments were made during the period ended 31 March 2021. The loan was used to finance the company's trading activities

Required:

a) Calculate Short Ltd's taxable total profits for the four-month period ended 31 July 2020.

[12 marks]

b) Calculate Long Ltd's tax adjusted trading profit for the six-month period ended 31 March 2021.

[13 marks]

CONTINUE TO NEXT SECTION

SECTION B

You are required to answer **ONE** question from Section B.

Either:

Question 4 Tax Principles

Most policy makers and advisors would agree that there are certain desirable principles that a tax or tax system should strive to achieve. You are required to examine the meaning of equity, using appropriate concepts, and choosing either UK Income Tax or Value Added Tax, evaluate its success in achieving this principle. You may wish to consider how changes in current practice may affect their achievement.

(25 marks)

OR:

Question 5 Environmental Taxation (25 marks)

You are required to explain the role played by environmental taxation in the UK and to examine the challenges and benefits of implementing such taxes.

(25 marks)

End of Examination Questions

Tax rates & Allowances follow on the next two pages

Taxation Systems
Rates and allowances supplement 2020 - 21

INCOME TAX

Income tax allowances table

Income Tax allowances	2019-20	**2020-21**
Personal Allowance	12,500	12,500
Income limit for personal allowance	100,000	100,000
Blind person's allowance	2,390	2,390
Transferable tax allowance	1,190	1,250
Personal savings allowance		
Basic rate taxpayers	1,000	1,000
Higher rate taxpayers	500	500
Dividend allowance	2,000	2,000

Income tax rates and taxable bands

	Non-savings	**Savings**	**Dividends**
£0 - £5,000* (/ £2,000**)	-*	0%*	0%**
£0 / £5,001 (/ £2,001) - £37,500	20%	20%	7.5%
£37,501 - £150,000	40%	40%	32.5%
Over £150,000	45%	45%	38.1%

* 0% rate on savings only available up to £5,000 of savings income if non-savings income does NOT exceed this sum. In addition a £1,000 personal savings allowance is available to basic rate taxpayers (£500 for higher rate and £nil for additional rate taxpayers).
** Dividend allowance of £2,000

CAPITAL GAINS TAX

Standard Rate		10%*
Higher rate		20%*
Annual exemption		£12,300
Chattels exemption		<= £6,000
Entrepreneurs relief	: Limit	£1,000,000
	Rate	10%

*An 8% surcharge applies in respect of residential properties

CORPORATION TAX

	FY 2019	**FY2020**
Corporation tax rate	19%	19%

VALUE ADDED TAX

Standard rate	20%
Reduced rate	5%
Zero rate	0%
Registration threshold from 1 April 2019: (unchanged from April 2017)	£85,000 per annum

CAR AND FUEL BENEFIT

CO_2 emissions gms / km	**Taxable % Petrol cars**	**CO_2 emissions gms / km**	**Taxable % Petrol cars**
0 – 50	16	140 – 144	32
51 – 75	19	145 – 149	33
76 – 94	22	150 – 154	34
95 – 99	23	155 – 159	35
100 – 104	24	160 – 164	36
105 – 109	25	165 or more	37
110 – 114	26		
115 – 119	27		
120 – 124	28		
125 – 129	29		
130 – 134	30		
135 – 139	31		

Diesel has a 4% supplement.
The maximum charge is 37% (for petrol and diesel).
Actual CO_2 figure rounded down to nearest 5 g/km

Set figure used in car / fuel benefit calculation £24,500

AUTHORISED PRIVATE CAR MILEAGE RATES

Business miles	Allowance rate per mile
0 – 10,000	45p
10,000 +	25p

Excess payments over these rates are taxable.
Shortfalls can be claimed as tax relief by the employee.